UNITED STATES
POSTAL REGULATORY COMMISSION
Washington, D.C. 20268-0001

FORM 10-K

(Mark One)

☑ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended SEPTEMBER 30, 2013

or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from ____________ to ____________

Commission file number N/A

UNITED STATES POSTAL SERVICE

(Exact name of registrant as specified in its charter)

Washington, D.C.	**41-0760000**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

475 L'Enfant Plaza, S.W.
Washington, DC 20260
(202) 268-2000
(Address and telephone number, including area code, of registrant's principal executive offices)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
N/A	N/A

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☑

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act.

Yes ☑ No ☐

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☐ No ☐ Not Applicable ☑

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☐ No ☐ Not Applicable ☑

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. Yes ☐ No ☐ Not Applicable ☑

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐ Not Applicable ☑

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☑

The aggregate market value of shares of common stock held by non-affiliates at September 30, 2012, was N/A
Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date.

Common Stock	Outstanding Shares at November 15, 2013
No Common Stock	N/A

DOCUMENTS INCORPORATED BY REFERENCE : None

United States Postal Service

Table of Contents

Part I

ITEM 1 — BUSINESS

OVERVIEW

In accordance with the provisions of the *Postal Reorganization Act*, the United States Postal Service (we or the Postal Service) began operations on July 1, 1971, as an "independent establishment of the executive branch of the Government of the United States" with the mandate to offer a "fundamental service" to the American people, "at fair and reasonable rates." We fulfill this legal mandate to provide universal service at a fair price by offering a variety of postal services to our many customers. Within each class of mail service, prices do not vary unreasonably by customer for the level of service provided. The Postal Service is governed by an eleven-member Board of Governors (the Board), of which nine members are independent Governors appointed by the President of the United States with the advice and consent of the Senate, plus the Postmaster General, who is appointed by the independent members of the Board of Governors, and the Deputy Postmaster General, who is appointed by the independent Governors and the Postmaster General.

The Postal Service's governing statute is codified in Title 39 of the United States Code. The *Postal Accountability and Enhancement Act, Public Law 109-435* (P.L. 109-435), made revisions to the *Postal Reorganization Act*. P.L. 109-435 and also created the Postal Regulatory Commission (PRC), endowing the PRC with regulatory and oversight obligations.

We serve individual and commercial customers throughout the nation, as well as internationally, competing for business in the communications, distribution, delivery, advertising, and retail markets. As a result, we have a very diverse customer base and are not dependent upon a single customer or small group of customers. No single customer represents more than 3% of operating revenue.

The law divides our services into two broad categories: Market-Dominant and Competitive "products"; however, the term "services" is often used in this document for consistency with other descriptions of "services" offered by the Postal Service. Price increases for those services classified as Market-Dominant are subject to a price cap based on the Consumer Price Index — All Urban Consumers (CPI-U). The regulations for Competitive services place no upper limit on price changes but do set a price floor. Throughout this document and in the day-to-day operation of the organization, we refer to our major service categories as the following: First-Class Mail, Standard Mail, Shipping and Packages, International, Periodicals, and Other. Most services in the First-Class Mail, Standard Mail, and Periodicals, are in the Market-Dominant category. Shipping and Package Services and International Mail, which are predominantly Competitive services, include, but are not limited to, First-Class and Standard Mail Parcels, Priority Mail, Priority Mail Express, Parcel Select and Parcel Return Service, Bulk Standard Post, and Bulk International Mail.

Our services are sold through a network consisting of nearly 32,000 Post Offices, stations, and branches, plus thousands of Contract Postal Units (CPUs), Community Post Offices (CPOs), Village Post Offices (VPOs), retail establishments that sell postage stamps and other services as a convenience to our customers, and our website, *http://www.usps.com*. Mail is delivered six days a week to almost 153 million city, rural, Post Office box, and highway delivery points.

All references to years in this report, unless otherwise stated, refer to fiscal years beginning October 1 and ending September 30. All references to quarters, unless otherwise stated, refer to fiscal quarters.

STRATEGY

The Postal Service continues to implement the strategies articulated in its five-year Business Plan released in 2012 and updated in 2013 to achieve financial stability and repay debt. The Business Plan included a four-pronged approach along a path to profitability: (1) taking aggressive actions within existing law to maintain liquidity and reduce the costs of operations to reflect current and future mail volumes; (2) maintaining high levels of performance and affordability of services; (3) informing stakeholders during congressional testimony and industry engagement activities about the changes necessary to the legislative and regulatory framework to enable long-term financial sustainability; and (4) identifying and building innovative capabilities that enable future revenue growth opportunities. Though the Postal Service has successfully implemented the following initiatives that have removed billions of dollars of costs out of Postal operations, while also increasing access and improving service, the current legislative restrictions on operations, pricing and service diversification restrict the ability for the Postal Service to implement its business plan and fully cover its cost of providing secure, reliable, and affordable universal delivery service to the American public.

I. ACCOMPLISHMENTS IN IMPLEMENTING STRATEGIES WITHIN MANAGEMENT CONTROL

We are a resilient organization that continues to implement proactive Business Plan strategies. Our operating network has been redesigned to produce greater efficiency of the mail processing network and align with projected mail volume. Below are some noteworthy accomplishments against our overriding corporate strategies.

Become a Leaner, Smarter, Faster Organization

- We consolidated 143 mail processing facilities in 2013 and reduced the total number of processing facilities in the postal network to 320, while maintaining a high level of service to customers.
- Post Office Structure Plan (POSt Plan) was implemented to keep existing Post Offices in place while lowering the cost to serve by reducing retail window hours to match customer use. During FY 2012, the hours for 7,985 Post Offices were modified to remain open for periods of 2, 4, or 6 hours per day in lieu of closing permanently.
- We increased efficiency by reducing delivery routes by 1,437 routes, despite absorbing 773,882 new delivery points. This will reduce gasoline costs as well as wear and tear on Postal vehicles.

Compete for the Package Business

- Shipping volumes continue to grow, allowing Postal revenues from shipping and packages to increase 17 percent in the past two years.
- In 2013, we improved our expedited shipping product line to better meet customer needs by including free insurance with Priority Mail, improving tracking capabilities, and providing 'day-specific' delivery information on expedited shipping labels.
- We deployed over 170,000 wireless Intelligent Mail Devices that enable real-time package tracking for customers. By the end of FY 2013, overall package scan rates exceeded 95 percent.
- We completed the operational pilot test of MetroPost, the USPS same day delivery service in a major metropolitan area.
- We are currently in the operational test phase of 18 gopost parcel locker units, which have been deployed in two major metropolitan areas and are expected to improve the overall customer experience with faster and more convenient package delivery and 24/7 accessibility.

Strengthen the Business-to-Consumer Channel

- We believe that as we help to equip businesses with tools to reach their customers, our revenue will grow. We have been helping to draw attention to the value in the mail piece and doing business with the Postal Service by encouraging linkages between digital technologies and print.
- We provided incentives to businesses to use digital technologies, such as mobile barcodes and QR codes, on mailings that add value to their customers.
- We improved Every Door Direct Mail (EDDM) with enhancements that help businesses target neighborhoods or make payments online.

Improve Customer Experience

- We have adjusted to changes in customer behaviors and demands to make accessing and using postal services more convenient.
- The Premier Post Office Certification program was launched to establish 3,100 Post Offices as a core of retail offices offering the highest level of standardized customer service and the best possible customer experience.
- In FY 2013, we opened 338 Village Post Offices inside local businesses that people already patronize.
- We have increased convenience for customers with enhanced offerings available through http://www.usps.com.
- We have upgraded innovative mobile applications to enable customers to shop online, track packages, locate a Post Office, and find a ZIP code.
- In FY 2013, we opened three Customer Care Centers that are staffed by Postal employees to address customer needs via the telephone, the web, or chat sessions.
- We have maintained our position as a secure and trusted service provider, which, in a digital world where privacy and security are sometimes threatened, is becoming more important.
- USPS was chosen as the provider of the digital Federal Cloud Credential Exchange platform, which would, if implemented, allow the public to securely access online government services at multiple agencies without the need for digital identification for each service.

II. LEGISLATIVE AND REGULATORY FACTORS THAT ENABLE A SELF SUSTAINING POSTAL SERVICE

The business environment has changed so dramatically in recent years that the significant operational changes undertaken by management will not, by themselves, be sufficient to ensure long-term financial stability for the organization. The legislative requirements put forward by the Postal Service constitute a fair and thorough means to stabilize the Postal Service and create a platform for future growth. The requirements include:

- Require USPS Health Care Plan, either within or outside of the Federal Employee Health Benefit Plan (FEHBP), that would virtually eliminate the RHB unfunded liability.
- Refund FERS overpayment and adjust future FERS payment amount.
- Adjust delivery frequency (six-day packages/five-day mail).
- Streamline governance model and eliminate duplicative oversight.
- Provide authority to expand products and services.
- Require defined contribution retirement system for future postal employees.
- Require arbitrators to consider the financial condition of the Postal Service.
- Reform Workers' Compensation.

These legislative and regulatory changes would enable USPS to fully implement its five year Business Plan and preserve its ability to provide and finance secure, reliable and affordable universal delivery service, further economic growth and enhance commerce, protect U.S. taxpayers by avoiding Federal funding and appropriations, and maintain fairness to employees and customers.

SEGMENTS

Although the law divides our services into Market-Dominant and Competitive categories and we monitor revenues by mail classes and shapes, we operate one fully integrated network, which is one segment throughout the United States, its possessions, and territories. Revenue from international operations represents less than 5% of total revenue.

SERVICES

The Postal Service is the only organization in the country that has the workforce, network infrastructure, and logistical capability to deliver to every business and residence in the U.S. and its territories. We are the centerpiece of the U.S. mailing industry, providing a wide variety of services to meet almost any mailing and shipping need. Our services are described in more detail below.

First-Class Mail — Offered for letters and postcards or any flat advertisement or merchandise destined for either domestic (up to 13 ounces) or international (up to 4 pounds) delivery. Personal correspondence, handwritten or typewritten letters, bills or statements of account, and payments must be mailed via First-Class Mail, Priority Mail Express, or Priority Mail.

Standard Mail — Offered for any item, including advertisements and marketing packages weighing less than 16 ounces that is not required to be sent using First-Class Mail. Standard Mail is typically used for direct advertising to multiple delivery addresses. Content restrictions apply for authorized nonprofit mailers. The Every Door Direct Mail (EDDM) options enable customers to prepare direct mailings without addresses for distribution to all residential or all business and residential customers on individual carrier routes.

Shipping and Packages include the following services:

First-Class Packages — Includes First-Class Package Service, a shipping option for high-volume shippers of packages that weigh less than one pound. Also includes First-Class Mail parcels for shipment of boxes, thick envelopes, or tubes of 13 ounces or less.

Package Services — Offered for any merchandise or printed matter weighing up to 70 pounds. These services include Bound Printed Matter, Library Mail, and Media Mail.

Priority Mail Express — This primarily overnight, money-back guaranteed service includes tracking, proof of delivery, and basic insurance up to $100. Delivery is offered to most U.S. destinations and is available 365 days a year. A surcharge is added for Sunday and holiday delivery. Priority Mail Express Flat Rate envelopes are available for shipments to any location in the United States. Commercial Base pricing is available for business customers using

PC Postage, permit imprint, or electronic manifesting. Commercial Plus pricing is available for customers meeting certain volume thresholds.

Priority Mail — Offered as a service both within the U.S. and abroad. The domestic offering is a 1–3 day specified (nonguaranteed) delivery service that is typically used to send documents, gifts, and merchandise. USPS Tracking and insurance on value up to $50 ($100 for Commercial Plus customers) is included. Online scheduling for free Package Pickup is available for home or business locations. Priority Mail Flat Rate boxes and envelopes are available for shipments at flat-rate prices. Commercial Base pricing is available for business customers using commercial postage payment methods (i.e., PC Postage, meters, and permit imprint). Commercial Plus pricing is available for business customers who meet certain volume thresholds. Priority Mail Regional Rate Boxes offer zone pricing to reduce costs. Commercial cubic pricing is available for Priority Mail parcels.

Parcels — Parcel Select, Parcel Return Service, and Standard Mail Parcel Services provide commercial customers with an economical means of package shipment. By taking advantage of the "first mile and last mile" strengths of the Postal Service, Parcel Select saves customers money by entering packages into the postal network closer to their ultimate destination. Parcel Return Service provides a service to commercial customers allowing them to easily and economically retrieve packages returned by their customers. Parcel Select and Parcel Return Services allow us to partner with privately owned delivery services to serve our respective customers' needs.

International — Offered for mail service and the shipping market with individual customer contracts, and agreements with other postal administrations. Also, this service allows for streamlined product offerings tailored to the needs of businesses and consumers. Priority Mail Express International (PMEI) and Priority Mail International (PMI) services are offered to compete in the eCommerce cross-border business. They also provide an affordable option for our retail and business customers for most of their shipping needs to over 180 countries. Global Express Guaranteed (GXG) is the premium international shipping option that offers reliable date-certain delivery in 1 to 3 business days to over 180 countries, with a money-back guarantee.

Periodicals — Offered for newspaper, magazine, and newsletter distribution. This service requires prior authorization by the Postal Service.

Other services include the following:

Post Office Boxes — Provides customers an additional method for mail delivery that is private and convenient.

Money Orders — A special service offering a safe, convenient, and economical alternative to sending cash through the mail or for the payment of bills. Postal money orders can be purchased at most Post Offices and can be sent within the U.S. and to some foreign countries. Postal money orders are available for any amount up to $1,000 and can be cashed at most Post Offices or can be deposited or negotiated at financial institutions. The Postal Service replaces postal money orders that have been damaged, lost, or stolen.

Extra Services — Offered for a variety of enhancements that add value, provide added security, proof of delivery, or loss recovery. Examples of these services include: Certified Mail, Registered Mail, Signature Confirmation, Adult Signature, and Insurance up to $5,000 available online, at Post Offices, or at Automated Postal Centers.

Details on the Postal Service's revenue and volume are found in Part II, Item 7, *Management's Discussion and Analysis of Financial Condition* and *Results of Operations* and in the Operating Statistics tables, located in Part III, Item 15, immediately following the Notes to the Financial Statements within this Form 10-K.

PRICING AND CLASSIFICATION ACTIVITY

P.L. 109-435 classifies postal services into two broad categories: Market-Dominant and Competitive. Market-Dominant services include, but are not limited to, First-Class Mail, Standard Mail, Periodicals, and certain parcel services. Price increases for these services are generally subject to a price cap by class of mail based on the Consumer Price Index–All Urban Consumers (CPI-U). Competitive services, such as Priority Mail, Priority Mail Express, Parcel Select and Parcel Return Service, Bulk Standard Post, and some types of International Mail have greater pricing flexibility and are commonly referred to as "Shipping and Package Services". New pricing for Market-Dominant and Competitive services went into effect January 27, 2013, at an average overall price increase of 4%.

Postal Service prices for Market-Dominant services are set by the Board of Governors and reviewed by the PRC for legal compliance. We have provided, and anticipate continuing to provide, at least 90 days advance notice of new prices for

Market-Dominant services. Prices for Market-Dominant services were increased 1.7% in April 2011, and an average of 2.1% in January 2012. The price of a one-ounce First-Class Mail stamp was $0.45 after increasing from $0.44 in January 2012. New pricing for all Market-Dominant services went into effect on January 27, 2013, at an average increase of 2.6%, after the compliance review of the PRC. The price of a one-ounce First-Class Mail stamp increased to $0.46 at that time.

Prices for Competitive services, by law, must cover costs attributable to each product, as well as an appropriate share of the institutional costs of the Postal Service. The required share of institutional costs to be covered by Competitive market services was determined by the PRC to be 5.5% of total institutional costs. By law, changes in prices for our Competitive market services must be announced at least 30 days prior to the implementation date. Prices for these Competitive market services–including Priority Mail Express, Global Express Guaranteed, Express Mail International, Priority Mail, Priority Mail International, Parcel Select, and Parcel Return Service–increased an average of 3.6% in January 2011, and again in January 2012 at an average rate of 4.6%.

On September 25, 2013, the Postal Service proposed two separate price increases for Market Dominant (Mailing Services) products, an average 1.6% increase based on changes in the Consumer Price Index (CPI) and a 4.3% average increase, on top of the 1.6% increase due to extraordinary and exceptional circumstances that have resulted in unacceptably low levels of liquidity. The 4.3% "exigent" price increase was deemed necessary by the Board of Governors to enable the Postal Service to maintain and continue the development of postal services of the kind and quality adapted to the needs of the United States, in view of the uncertain path towards postal reform legislation. The proposed pricing changes would increase the price of a First-Class Mail single-piece letter from $0.46 to $0.49. Similar increases would be applied to Standard Mail, Package Services, Periodicals, and Extra Services. The proposed changes, which, if approved by the PRC, would go into effect in January 2014, are expected to generate $2 billion of additional annualized revenue for the Postal Service.

We offer contract prices, rebates, online price reductions, and other incentives to encourage customers to increase their volumes, which in turn, will increase Postal revenue.

Reclassification of Certain Postal Services

Periodic reclassifications and expansions of services from Market-Dominant to Competitive, which require approval from the PRC, are necessary to rationalize service offerings. The additional flexibility provided in Competitive services allows us to better offer services that meet customer needs, to increase business for the Postal Service, and to allow us to price our products and services competitively within the markets in which we operate. The Postal Service's Competitive services generally include most of our shipping, package, and expedited delivery services.

In Quarter I, 2012, with the approval of the PRC, we reclassified certain lightweight commercial parcels previously included in the Market-Dominant category as First-Class Mail Parcels. These parcels were classified as First-Class Package Services and included in Competitive services. In addition, certain Post Office Box services were reclassified from Market-Dominant to Competitive. In Quarter II, 2012, Standard Mail parcels used for the fulfillment of customer orders were reclassified as part of Parcel Select which is a Competitive service. There were no new reclassifications in Quarter III or IV, 2012. On July 20, 2012, the PRC conditionally approved the transfer of Standard Post (formerly Parcel Post) from Market-Dominant to Competitive, effective January 27, 2013. On September 10, 2012, the PRC approved the transfer of First-Class Package International Service from Market-Dominant to Competitive, also effective January 27, 2013.

While there are distinct legal and regulatory classifications of postal services known as either Market-Dominant or Competitive, Postal Service management utilizes the following broad service categories to evaluate performance and manage the business: First-Class Mail, Standard Mail, Shipping and Packages, International, Periodicals, and Other. Throughout this document, operational measurements and financial data, such as revenue and volume, will be reported utilizing these categories.

INTELLECTUAL PROPERTY

We own intellectual property that includes trademarks, service marks, patents, copyrights, trade secrets, and other proprietary information, and routinely generate intellectual property in the course of developing and improving systems, services, and operations. While legal protection for intellectual property and proprietary information is significant to our success, the knowledge, ability, and experience of our employees and the timeliness and quality of service we provide are more significant.

SEASONAL OPERATIONS

Mail volume and revenue are historically greatest in the first quarter of our fiscal year, which includes the fall holiday mailing season, and lowest during the spring and summer, the third and fourth quarters of the fiscal year. In years in which a general election occurs, direct mail may be heavily used by political organizations to reach their targeted audiences, thereby temporarily increasing volumes during the months preceding an election.

CUSTOMERS

We have a very diverse customer base and are not dependent on a single customer or small group of customers. No single customer represents more than 3% of operating revenue, although advertising mail, in general, accounts for more than half of our volume.

GOVERNMENT CONTRACTS

No material portion of our business is subject to renegotiation of profits or termination of contracts or subcontracts at the election of the U.S. Government.

COMPETITION

A wide variety of communications media compete for the same types of transactions and communications that historically were conducted using Mailing Services. These competitors include, but are not limited to, newspapers, telecommunications, television, e-mail, social networking, and electronic funds transfers. Our shipping and package business competes on the basis of the breadth of our service network, convenience, reliability, and economy of the service provided. The package and express delivery businesses are intensely competitive and are likely to remain so. The primary competitors of shipping and package services are FedEx Corporation and United Parcel Service, as well as other regional and local delivery companies.

RESEARCH AND DEVELOPMENT

We operate a research and development facility in Virginia for design, development, and testing of postal equipment and operating systems, and also contract with independent suppliers to conduct research activities. While research and development activities are important to our business, these expenditures are not material.

ENVIRONMENTAL MATTERS

We are not aware of any federal, state, or local environmental laws or regulations that would materially affect our financial results or competitive position, or result in material capital expenditures. However, the effect of possible future environmental legislation or regulations on operations cannot be predicted. Any new laws or regulations that regulate greenhouse gas emissions into the environment may increase our operating costs. The costs that we believe may increase as a result of any new environmental laws or regulations could include: diesel fuel, unleaded gasoline, the cost of retrofitting existing vehicles, and other petroleum-related products.

EMPLOYEES

At September 30, 2013, we had approximately 491,000 career employees and 127,000 non-career employees, substantially all of whom reside in the U.S.

Approximately 90% of career employees are covered by collective bargaining agreements. The labor force is primarily represented by the American Postal Workers Union (APWU), National Association of Letter Carriers (NALC), National Postal Mail Handlers Union (NPMHU), and National Rural Letter Carriers' Association (NRLCA). The current contract with the APWU became effective May 23, 2011, and extends through May 20, 2015. On July 3, 1012, a final award was rendered in the arbitration case between USPS and the NRLCA, resulting in a new NRLCA contract that extends through May 20, 2015.

On January 10, 2013, a final award was rendered in the arbitration case between USPS and the NALC, resulting in a new NALC contract. The current contract with the NALC became effective on November 21, 2011, and extends through May 20, 2016. The new NALC contract has no retroactive payments, includes general wage increases in 2014 through 2016, stipulates that COLA for 2013 is deferred until 2014, and reduces the employer contribution to the funding of health benefits.

On February 15, 2013, a final award was rendered in the arbitration case between USPS and the NPMHU, resulting in a new NPMHU contract. The current contract with the NPMHU became effective on November 21, 2011, and extends through May 20, 2016. The new NPMHU contract has no retroactive payments under the agreement, includes general wage increases in 2014 through 2016, stipulates that COLA for 2013 is deferred until 2014, and reduces the employer contribution to the funding of health benefits.

By law, the Postal Service must consult with management organizations representing most of the employees not covered by collective bargaining agreements. These consultations provide non-bargaining unit employees in the field with an opportunity to participate directly in the planning, development, and implementation of certain programs and policies that affect them. In 2012, we completed the consultation processes with the National Association of Postal Supervisors (NAPS), representing supervisory and managerial employees, and with the National Association of Postmasters of the United States (NAPUS) and the National League of Postmasters of the United States (NLPM), representing postmasters.

The Postal Service participates in federal employee benefit programs as provided by statute for retirement, health, and workers' compensation benefits.

AVAILABLE INFORMATION

The Postal Service is required by law and regulations to disclose operational and financial information well beyond what the law requires of other government agencies and most private sector companies.

The Postal Service is not a reporting company under the *Securities Exchange Act of 1934*, as amended, and is not subject to regulation by the Securities and Exchange Commission (SEC). However, it is required under P.L.109-435 to file with the PRC certain financial reports containing information prescribed by the SEC under Section 13 of the *Securities Exchange Act of 1934*. These reports include annual reports on Form 10-K, quarterly reports on Form 10-Q, and current reports on Form 8-K, which are available at *http://about.usps.com/who-we-are/financials/welcome.htm*.

Pursuant to Title 39 and PRC regulations, additional disclosures on the organization and finances, including Cost and Revenue Analysis reports, Revenue, Pieces, and Weight reports, financial and strategic plans, the *Annual Report to Congress* and the *Comprehensive Statement on Postal Operations* are filed with the PRC and may also be found online at *http://about.usps.com.* Information on the website is not incorporated by reference in this report.

We make available on our website, free of charge, copies of our recent annual reports, quarterly reports, and current reports as soon as reasonably practicable after they are filed with or provided to the PRC. Requests for copies may also be sent to the following address:

Corporate Communications
United States Postal Service
475 L'Enfant Plaza, SW
Washington, DC 20260-3100

Part I

ITEM 1A — RISK FACTORS

Our operations and financial results are subject to various risks and uncertainties that could adversely affect our business, financial condition, results of operations, and cash flows. Here, we provide a broad overview of the chief external factors that influence, and in some cases govern, operations and financial results, briefly discussing their specific impacts in 2013 as well as their anticipated near-term effects. The remainder of this report, notably the sections entitled “Business”, located within Part I, Item 1, and “Management's Discussion and Analysis of Financial Condition and Results of Operations”, located within Part II, Item 7, provides a further understanding of the risks and uncertainties we confront.

Adverse changes in the economy directly impact our business, negatively affecting results of operations.

The global economy may impact our business and financial condition in ways that we currently cannot predict. The demand for postal services is heavily influenced by the economy. The U.S. national unemployment rate has decreased, but remains in an elevated state, decreasing from 7.8% in September 2012 to 7.2% in September 2013. U.S. Gross Domestic Product (GDP) real growth rates continue to be lackluster despite being in the fourth year of economic recovery past the deep recession that began in December 2007 and ended in the summer of 2009 (Great Recession). GDP real growth was 1.6% for the year ended September 30, 2013, down from a revised 3.1% for the year ended September 30, 2012. The historically elevated unemployment rate continued to dampen growth in the consumer economy which is responsible for 70% of GDP. Despite the stabilization of unemployment and improvements in the housing sector, the economy has been adversely impacted by sequestration and ongoing uncertainty over fiscal policy. This has created additional economic uncertainty and impacted consumer and business spending. Additionally, as we continue to grow our international business, the health of the global economy and international events increasingly impact our business. The impact of increased fuel costs may inhibit future economic growth prospects in 2014, which could impact mail volumes. To the extent that the U.S. and other countries continue to experience slow economic growth, our business, financial position, and results of operations will continue to be adversely impacted.

Even with some regulatory and legislative changes, our ability to generate sufficient cash flows from current and future management actions to increase efficiency, reduce costs, and generate revenue may not be sufficient to meet all of our financial obligations.

The Postal Service continues to suffer from a severe lack of liquidity. In the past seven years, we have incurred $46 billion of net losses, including $38 billion of expenses for prefunding of retiree health benefits to the Postal Service Retirement Health Benefit Fund (PSRHBF). We have paid $21 billion of cash to the PSRHBF for prefunding over the past seven years. In addition, while we were forced to default on the $16.7 billion of prefunding obligations in 2012 and 2013, this amount has been expensed and is reflected as a liability in our balance sheets. During the past seven years, our debt has increased by nearly $13 billion, reaching the $15 billion borrowing limit at the end of 2012.

Our strategies to increase efficiency and reduce costs by adjusting our network, infrastructure, and workforce, and to retain and grow revenue are currently constrained by contractual, statutory, regulatory, and political restrictions. Our competitors are not constrained by these factors to the same extent and have been able to react more quickly to the changing economic climate and industry conditions. The ability to generate sufficient cash flow to meet obligations is also substantially dependent on the continuance, strength, and speed of the economic recovery and the execution of operational strategies available under current law to increase efficiency and generate incremental revenue.

In April 2013, we updated our comprehensive *2013 Five-Year Business Plan* (Business Plan) which details the implementation of a targeted program to eliminate nearly $20 billion of annual cost from the business by 2017. The Plan continues our efforts to aggressively pursue the strategies within our control to increase operational efficiency and to improve our liquidity position. The Plan requires a combination of operational realignment, aggressive cost reductions, and comprehensive legislation to reform the Postal Service’s current business model. Additionally, we have proposed legislative changes that are needed to provide the Postal Service with the legal authority to implement additional measures to increase efficiency and cost savings and to grow revenue. Legislation has been introduced in both houses of Congress, but neither bill has passed either the Senate or the House of Representatives. Neither bill contains the authority necessary to implement all required actions to increase productivity and realize the cost savings in the Plan. Given the vital role the Postal Service plays in the U.S. economy, we are requesting that Congress expeditiously take the steps needed to enact legislative changes that will enable the Postal Service to return to financial stability.

The year ended September 30, 2013, marked the second consecutive year and third consecutive time that we were forced to default on the required prefunding payments to the PSRHBF for retiree health benefits. In 2013, we were forced to default on the $5.6 billion payment to the PSRHBF due by September 30, 2013. The defaults in 2012 and 2013 have resulted in a total default of $16.7 billion. Absent legislative change, the Postal Service is likely to default on the $5.7 billion retiree health benefits prefunding payment due by September 30, 2014. The statutory requirement establishing the prefunding payment schedule (P.L. 109-435) contains no provisions addressing a payment default. As of November 15, 2013, we have suffered no penalties as a result of our inability to make these payments.

We will continue to inform the Administration, Congress, PRC, and other stakeholders of our financial condition and outlook and to pursue legislative changes, cost reductions, and ways to generate additional revenues in order to improve our liquidity in 2014. Although our cost-reduction and revenue-generation initiatives are expected to positively impact cash flow, we project that they likely will not, in the aggregate, be sufficient to ensure long-term financial viability. Many of the structural reforms needed to ensure long-term viability, such as adjustments to the PSRHBF prefunding payment schedule and changes to delivery standards, can only be achieved with legislative change. There can be no assurance that Congress will enact legislation that will impact 2014 or future years.

We are subject to Congressional oversight and regulation by the Postal Regulatory Commission and other government agencies. We have a wide variety of stakeholders whose interests and needs are sometimes in conflict.

As an outgrowth of our unique status as a provider of a fundamental service to the American people, we attempt to balance the interests of many parties. Efforts to be responsive to various stakeholders sometimes adversely impact the speed with which we are able to respond to changes in mail volume or other operational needs. Any limitations on our ability to take management action could adversely affect operating and financial results. Additionally, we operate as an independent establishment of the executive branch of the Government of the United States and as a result are subject to a variety of regulations and other limitations applicable to federal agencies. If the Federal Government curtails its spending due to debt ceiling constraints, we may be adversely impacted.

Adverse events may call into question our reputation for quality and reliability or our ability to deliver the mail, and could diminish the value of the Postal Service brand. This could potentially adversely affect our revenues and results of operations.

In its latest review of universal postal service providers, Oxford Strategic Consulting ranked the U.S. Postal Service the best postal service within the world's top 20 largest economies for access to services, resource efficiency, and public trust. The Postal Service brand represents quality and reliable service; and therefore, is a valuable asset. We use our brand extensively in sales and marketing initiatives and take care to defend and protect it.

Our financial condition and our network consolidation activities have been highly publicized. Both Congress and the Administration have offered various proposals to address some of the complex issues affecting the Postal Service. Although the approaches of various legislators and the Administration often differ and there is a lack of consensus in many areas, the intent of all stakeholders is the same – to preserve the Postal Service and improve its overall financial health. Reports in the press regarding these discussions may result in confusion or misunderstanding by our customers regarding the future viability of the Postal Service. As a result, there is a possibility that customers may change their buying habits based upon these misperceptions. Increased usage of social media platforms, including Facebook, Twitter, and YouTube, have provided increased access to the public for the exchange of news and opinions regarding the Postal Service. Unfavorable publicity can be spread across these media platforms very quickly and is difficult to counteract.

Any event, whether real or perceived, that calls into question our long-term existence, our ability to deliver mail, our quality, or our reliability could diminish the value of our brand and reputation and could adversely affect our business operations and operating results.

Our need to restructure our operations in response to declining mail volumes may result in significant costs. It is possible that the measures being considered would be insufficient to reduce our workforce and physical infrastructure to a level commensurate with lower and declining mail volumes.

Our current network optimization plans include the consolidation of certain mail processing operations and reductions in lobby hours of many retail units, Post Offices, and other facilities. At the current time, our regular review of the carrying value of our assets has not resulted in significant impairments of our physical assets. However, future changes in business strategy, legislation, government regulations, or economic or market conditions may result in material impairment write-downs of our assets. We may, in the future, consider offering financial incentives to encourage employees to voluntarily leave the Postal Service, as has been done in the past. Such impairments, incentives, or other related costs would adversely impact our financial results in the short-term, although they would result in long-term savings. In addition, there is no assurance that the mechanisms available under existing law and contractual arrangements will be sufficient to reduce the workforce or facilities to a level that would allow a return to financial stability.

Our business and results of operations are significantly affected by competition from both competitors in the market place as well as substitute products and channels provided by electronic communication services. If we do not compete effectively, operate efficiently, grow marketing mail and package services, and increase revenue and profit margins from other sources, this adverse impact will become more substantial over time.

Our marketplace competitors primarily include package delivery services. Our competitors have different cost structures and fewer regulatory restrictions than we do and thus are able to offer differing services and pricing, which may hinder our ability to remain competitive in these service areas. In addition, our competitors have access to public capital markets, which allows them greater freedom in investments and expansion of their business.

Customer usage of postal services continues to shift away from transactions, correspondence, and Periodicals Mail toward alternative media. Advertising is highly correlated with economic activity. The Great Recession has caused a substantial reduction of advertising spending over the past few years. Shipping Services are, to a lesser degree, also influenced by economic activity. Transactional mail, such as the presentment and payment of bills, also heavily influenced by economic activity, has been eroded by competition from electronic media, driven by some of our major mailers who actively promote the use of online services. The promotion of the online services was accelerated during the Great Recession, as mailers were looking for ways to reduce costs and were incentivizing customers to make the switch. Factors underlying this trend include growing internet access in homes, increased availability of broadband service, expansion of mobile internet access, increasing familiarity and comfort with the internet, and the growing trend by businesses to incent or require their customers to use alternatives to mail for payments and statement presentment, as businesses attempt to cut costs to respond to the challenging business climate and the lingering effects of changes in consumer behavior that came about during the Great Recession.

Correspondence mail has long been a declining part of mail volume. With the availability of e-mail and other internet-based forms of communication, such as e-cards and social networking, and inexpensive telephone service, there is little chance that the decline in correspondence mail will be reversed.

Additionally, the volume of Periodicals Mail continues to decline as people increasingly use electronic media for news and information. Periodical advertising has also experienced a decline as a result of the move towards a lower cost electronic media.

Existing laws and regulations limit our ability to introduce new services or products, enter new markets, generate new revenue streams, or manage our cost structure. These laws and regulations also may prevent us from increasing prices sufficiently, or generating sufficient efficiency improvements, to offset increased costs. This would adversely affect our results of operations.

In order to offset declining volumes and revenues caused by the changing economy and electronic diversion, our ability to sell new products and services in new or existing markets will be a key factor to our return to profitability. However, various laws and regulations significantly limit our ability to enter new markets and/or to provide new services and products as defined by traditional industry definitions. Without legal or regulatory changes that allow us to introduce new products or services to take advantage of our assets, including our strong network and last-mile capabilities, we may be unable to respond adequately to consumers' changing needs and expectations. These limitations have the potential to adversely impact our results of operations and long-term financial viability.

P.L. 109-435 generally limits price increases on our Market-Dominant services to the rate of inflation as measured by the CPI-U. However, our costs are not similarly limited. A large portion of our cost structure cannot be altered expeditiously. Accordingly, we may not be able to increase prices sufficiently to offset increased costs. Because our services are provided primarily through people, postal costs are heavily concentrated in wages and employee and retiree benefits. These costs are significantly impacted by wage inflation, health benefit premium increases, retirement and workers' compensation programs, cost-of-living allowances, and the continuous expansion of our delivery network. Some of these costs have historically tended to increase at a higher rate than inflation as measured by the CPI-U. We believe that continuing productivity improvements, by themselves, will not be sufficient to address the challenge presented by declining volumes and revenues and the regulatory price cap, nor will revenue enhancements keep pace with increased cost structures.

An unduly burdensome union contract arrived at either through negotiation or arbitration could have a significant adverse impact on our future results of operations by impacting our control over wages and benefits and/or by limiting our ability to manage our workforce effectively.

The majority of our labor force is represented by labor unions and covered by collective bargaining agreements, primarily with the APWU, NALC, NPMHU, and the NRLCA. The agreements currently in force include provisions for mandatory cost-of-living adjustments (COLA), which are linked to the Consumer Price Index – Urban Wage Earners and Clerical Workers (CPI-W). Although the increases in the CPI-W have been relatively low since its 2008 peak when it conferred annual pay increases to employees of nearly $1.1 billion, a resurgence of consumer inflation could have a significant adverse impact on our labor costs. The agreements also contain provisions that limit our ability to reduce the size of the labor force. Reductions in the size and cost of our labor force are necessary to offset the effects of declining volumes and revenues.

The ability to negotiate contracts that control labor costs is essential to maintaining financial stability. Failure to do so, or an unfavorable decision by an arbitrator during binding arbitration, could have significant adverse consequences on our ability to meet financial obligations.

We have no assurance that we will be able to negotiate contracts in the future with our unions that will result in a cost structure that is sustainable within current and projected future revenue levels. In addition, if our future negotiations should fail and involved parties proceed to arbitration, we would be deprived of control in the collective bargaining process. The risk of an adverse outcome rises in arbitration, as there is no current statutory mandate requiring an interest arbitrator to consider the financial health of the Postal Service in issuing an award. An unfavorable award in arbitration could have significant adverse consequences on our ability to meet future financial obligations.

We rely on the terms and conditions of our contracts with vendors and customers to deliver our services. These contracts are renegotiated on a routine and periodic basis. Significant changes in the costs, pricing, or terms associated with these contracts could adversely affect our business.

Our vendors and customers enter into long-term contracts with us to supply goods and services and to procure our services. These contracts are renegotiated from time to time and to the extent that contracts are not renewed, are renewed with terms that may not sufficiently cover our costs, or increase our costs, our financial condition may be adversely affected. While no single customer or vendor is material to the Postal Service as a whole, certain vendors and customers are significant to the delivery of certain product lines. Our ability to maintain current or improved terms in our contracts with our customers and vendors is critical to our initiatives to return to profitability.

Fuel expenses are a material part of operating costs. A significant increase in fuel prices could adversely affect costs and results of operations.

We are exposed to changes in commodity prices, primarily for diesel fuel, unleaded gasoline, and aircraft fuel for transportation of mail, and natural gas and heating oil for facilities. The price and availability of fuel can be unpredictable and is beyond our control. Unlike commercial entities, we are unable to institute fuel surcharges in our pricing model. A 1% increase in fuel costs would result in a $28 million increase in expense. We did not use derivative commodity instruments to mitigate the financial risk of changes in energy prices during the periods covered by this report.

We rely extensively on computer systems and technology to manage the delivery of mail, process transactions, summarize results, and manage our business. Disruptions in both our primary and secondary (back-up) systems could harm our ability to run our business and potentially result in significant losses of revenue or additional operating costs. In addition, such disruptions could impair our reputation for reliable service, which would also adversely affect results of operations.

Our operational and administrative information systems are among the largest and most complex systems maintained by any organization in the world. Any disruption to our complex infrastructure, including those impacting the computer systems which facilitate mail handling and delivery and customer-utilized websites, could adversely impact customer service, mail volumes, and revenues, and result in significant increased cost. Any significant systems failure could cause delays in the processing and delivering of mail or result in the inability to process operational and financial data. System failures such as this could damage our reputation, resulting in loss of business and increased costs.

Due to our current cash constraints, our operational performance in the future could be at risk as a result of inadequate capital investment in transportation equipment, mail processing equipment, facilities, or information technology, which are either essential to operations or necessary to improve the quality of our services.

Failure to anticipate or react to our competition, market demands, and/or new technology due to inadequate cash reserves is a significant operational risk. Our aging facilities, equipment, and transportation fleet could inhibit our ability to be competitive in the marketplace, deliver a high-quality service, and meet the communication needs of the American public. The changes in the economic landscape in recent years have made it increasingly important for the Postal Service to invest in its operations in order to remain competitive. If our operations do not generate the liquidity we require, we may be forced to reduce, delay, or cancel investments in technology, facilities, and/or transportation equipment while our competitors and other businesses are pursuing advanced, competing technologies, and equipment. Aging or potentially obsolete infrastructure could result in a loss of business and increased costs.

We have a substantial amount of indebtedness.

Since 2012, our debt obligations have remained at the statutory $15 billion debt limit. Our significant indebtedness to the Federal Financing Bank has important consequences. For example, it limits our flexibility in planning for, or reacting to, changes in the business environment or competition; it places us at a competitive disadvantage compared to commercial competitors that may have less debt and which have access to the public capital markets; and it could require us to dedicate a substantial portion of our cash flow from operations to payments on indebtedness, thus reducing the availability of cash flow to fund working capital, capital expenditures, and other general organizational activities.

Health and pension benefit costs represent a significant expense to us.

With approximately 491,000 career employees and 491,000 annuitants and survivors participating in the Federal Employees Health Benefit Plan, our expenses relating to employee and retiree health and pension benefits are significant. We participate in Federal Government pension and health and benefits programs for employees and retirees, including the Federal Employees Health Benefit Program (FEHBP), the Civil Service Retirement System (CSRS), and the Federal Employees Retirement System (FERS), as required by law. We have no control or influence over the benefits offered by these plans and make contributions to these plans as specified by law or contractual agreements with our unions (in the case of health benefits for most active employees). Several factors including participant mortality rates, return on investment, and inflation could require us to make significantly higher future contributions to these plans; and many of these factors are beyond Postal management's control.

In addition, P.L. 111-148, the *Patient Protection and Affordable Care Act*, was passed in 2010. The annual impact of this legislation to the U.S. Postal Service is uncertain at this point. However, if the impact is negative, it could result in increased health benefit expenses and decreased liquidity.

In recent years, we have experienced significant increases in retiree health benefits costs, primarily as a result of the *Postal Accountability and Enhancement Act, (P.L. 109-435)*, which obligates us to fully fund, on an accelerated time frame, the health benefits of current retirees and current postal employees who have not yet retired. Additionally, we are required to continue contributing to the FERS pension program at OPM-specified rates, and will likely be required to resume contributions to the CSRS, beginning in 2017, if OPM determines that a supplemental unfunded liability payment is necessary.

At this time, we are unable to determine the amount of additional future contributions, if any, or whether any material adverse effect on our financial condition, results of operations, or liquidity could result from our participation in these plans.

Workers' compensation insurance and claims expenses could have a material adverse effect on our business, financial condition, and results of operations.

Workers' compensation expense accruals are established for estimates of the cash outlays that we will ultimately incur on reported claims, as well as estimates of the costs of claims that have been incurred but not yet reported. Trends in actual experience and management judgments about the present and expected levels of cost per claim are significant factors in the determination of such accruals. Several other factors which are beyond Postal management's control, such as discount and inflation rates, could cause us to incur higher workers' compensation expense. In addition, our workers' compensation program is administered for us by another Federal agency, the Department of Labor (DOL). As such, we do not have the same level of control over the execution of the program that a private company has with their workers' compensation insurance provider.

We believe our estimated accruals for such claims are adequate, but if actual experience in the number of claims, and/or severity of claims for which we are retaining risk increases, required accruals could materially differ from our estimates and adversely affect our financial condition and results of operations.

The potential liability associated with existing and future litigation against us could have a material adverse effect on our business, results of operations, financial condition, and cash flows.

We are subject to various legal proceedings and threatened legal proceedings from time to time. Any litigation, regardless of its merits, could result in substantial legal fees and costs being incurred by us. Further, actions that have been or will be brought against us may not be resolved in our favor and, if significant monetary judgments are rendered, we may not have the ability to pay. Such disruptions, legal fees, and any losses resulting from these claims could have a material adverse effect on our business, results of operations, financial condition, and cash flows.

A failure to protect the privacy of information we obtain from customers could damage our reputation and result in a loss of business.

We have invested in and employ a variety of technology security initiatives aimed at protecting organizational information, as well as customer information. As one of the government agencies most trusted by the American public, protecting the confidentiality of data that we obtain is paramount to us. However, should our information technology security initiatives not fully insulate us from a security breach or data loss, our reputation could be damaged resulting in an adverse effect on our operations and financial results. Moreover, unlike other non-governmental entities in our industry, the Postal Service must abide by the *Privacy Act of 1974*, which restricts how the Postal Service can collect, use, maintain, and disseminate personally identifiable information, and prescribes civil and criminal penalties for non-compliance.

International conflicts or terrorist activities and the effects of these events may have adverse impacts on business operations or our financial results. In addition, we are subject to the risk of biohazards and other threats placed in the mail.

We are exposed to the impacts of international conflicts and terrorist activities on the United States, global economies in general, and the transportation industry in particular. In addition, we are particularly subject to the risk of biohazards and other threats placed in the mail. Although we have implemented extensive emergency preparedness measures to keep the mail, employees, and customers safe from harm due to biohazards or other threats that could be introduced into the mail, this risk cannot be completely mitigated. If new threats were to arise and measures were not sufficient to contain or mitigate the threat, services could be disrupted. This could adversely affect mail volumes and revenue and require substantial expenditures to address the new threat, thus adversely affecting our operations and financial results.

We may be adversely impacted by the legal or regulatory responses to actual or perceived global climate change.

Concerns about climate change, particularly global warming, have resulted in significant discussions in the scientific community, domestic and international governments, and environmental organizations about the effects of greenhouse gases on the environment. These discussions could result in new laws or regulations that regulate greenhouse gas emissions into the environment and, as a result, our operating costs may increase. The costs that we believe may increase as a result of any new environmental laws or regulations could include: diesel fuel, unleaded gasoline, retrofitting existing vehicles, and other petroleum-related products, such as tires. In addition, utility costs associated with the operation of facilities may increase as a result of new environmental laws and regulations. Finally, because we also use contracted carriers to transport the mail, we anticipate that increased operating costs for these independent carriers, including increased costs resulting from new laws or regulations, may ultimately be passed through to the Postal Service.

We are also subject to risks and uncertainties that affect many other businesses, including:

- Market acceptance of new product and service initiatives;
- Adverse weather conditions or natural disasters, such as hurricanes, which can damage property and disrupt operations;
- Widespread outbreak of an illness or any other communicable disease, or any other public health crisis; and
- Changes in interest rates.

ITEM 1B — UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2 — PROPERTIES

REAL ESTATE

Facilities range in size from 60 square feet to 32 acres under one roof and support retail, delivery, mail processing, maintenance, administrative, and support activities.

The following table summarizes our real estate inventory and annual rent expense.

Real Estate Inventory (Actual numbers)	2013	2012
Leased Facilities	**23,814**	**23,998**
Owned Facilities	**8,598**	**8,606**
GSA / Other Government Facilities	**297**	**300**
Total Real Estate Inventory	**32,709**	**32,904**
Annual Rent Paid to Landlords (Dollars in millions)	**$ 952**	**$ 979**

USAGE OF FACILITIES

Facilities that support postal retail and delivery operations are located in virtually every community throughout the country. In addition to the 31,702 retail and delivery facilities that we operate, postal retail services are available in thousands of commercial locations owned and operated by private businesses. These include almost 4,000 Contract Postal Units, Community Post Offices, and Village Post Offices, more than 5,700 approved shipper locations, and over 64,000 supermarkets, pharmacies, and other stores that sell postage stamps as a convenience to our customers.

The following types of facilities, as detailed in the table below, comprise our postal retail and delivery operations.

Postal-Managed Retail and Delivery Facilities (Actual numbers)	2013	2012
Post Offices	**26,670**	**26,755**
Classified Stations	**3,084**	**3,110**
Classified Branches	**1,396**	**1,407**
Carrier Annexes	**552**	**585**
Total Postal-Managed Retail and Delivery Facilities	**31,702**	**31,857**

The following types of facilities, as detailed in the table below, house our postal processing operations.

Processing Facilities (Actual numbers)	2013	2012 [1]
Plants	197	224
Mail Processing Facilities	37	88
Network Distribution Centers	21	21
Annexes	51	68
Surface Transfer Centers	7	8
Airmail Processing Centers	-	1
Remote Encoding Centers	2	2
International Service Centers	5	5
Total Processing Facilities	320	417

1 - Amounts for 2012 have been restated to be consistent with category reclassification made in 2013.

Our larger facilities primarily support mail processing operations. These facilities process millions of pieces of mail on a daily basis and prepare them for dispatch and transportation. They may also house some of the retail and delivery operations identified under retail and delivery functions.

As part of the ongoing efforts to improve efficiency, adjust the network as a result of lower volumes of mail, and reduce excess capacity, we have begun consolidation of operations, which has led to a reduction in the number of facilities that support mail processing. We are currently pursuing further consolidation of mail processing facilities. Consolidations allow for reductions in headcounts and transportation costs due to efficiencies of scale in mail processing and transportation but do not always result in a reduction in real estate. Consolidation also results in more efficient use of our mail processing facilities and equipment as well as our transportation network.

VEHICLES

The Postal Service operates one of the largest vehicle fleets in the United States, including a fleet of alternative-fuel vehicles. There were no significant vehicle purchases in 2013. Our fleet of vehicles is utilized for the types of activities as shown in the table below.

Vehicle Inventory (Actual numbers)	2013	2012
Delivery and Collection (1/2 - 2 1/2 ton)	190,104	190,897
Mail Transport (Tractors & Trailers)	5,850	5,985
Administrative	6,449	6,451
Service (Maintenance)	4,613	4,604
Inspection and Law Enforcement	2,529	2,448
Mail Transport (3 - 9 ton)	2,139	2,145
Total Vehicles	211,684	212,530

ITEM 3 — LEGAL PROCEEDINGS

We are subject to various claims and liabilities that arise in the normal course of operations. These claims generally relate to labor, tort, and contract disputes, and are regularly reviewed by management, and, where significant, by the Audit and Finance Committee of the Board of Governors and/or the full Board of Governors.

As previously reported, on January 14, 2010, the Equal Employment Opportunity Commission's (EEOC) Office of Federal Operations certified a class action case against the Postal Service in a matter captioned McConnell v. Donahoe (first instituted in 2006 as McConnell v. Potter), with the class consisting of all permanent rehabilitation employees and limited-duty employees who have been subjected to the National Reassessment Process (NRP) from May 5, 2006, through July 1, 2011. The Postal Service used the NRP to ensure that its records were correct and that employees receiving workers' compensation benefits were placed in jobs consistent with their abilities. The case alleges violations of the Rehabilitation Act of 1973 resulting from the NRP's failure to provide a reasonable accommodation, the NRP's wrongful disclosure of medical information, the creation by the NRP of a hostile work environment, and the NRP's adverse impact on disabled employees. The class is seeking injunctive relief and damages of an uncertain amount. If the plaintiffs were able to prove their allegations in this matter and to establish the damages they assert, then an adverse ruling could have a material impact on the Postal Service. However, the Postal Service disputes the claims asserted in this class action case and is vigorously contesting the matter.

For further discussion of the legal proceedings affecting us, please see the information under the sub-caption “Legal Matters and Contingent Liabilities” of the caption “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included in Part II, Item 7, of this Form 10-K.

ITEM 4 — MINE SAFETY DISCLOSURES

Not applicable to the United States Postal Service.

Part II

ITEM 5 — MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Not applicable to the United States Postal Service. As an "independent establishment of the Executive Branch of the Government of the United States," we do not issue stock or other securities.

ITEM 6 — SELECTED FINANCIAL DATA

See the Financial History Summary located in Part IV, Item 15 of this Form 10-K.

ITEM 7 — MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

CAUTIONARY STATEMENTS

Forward-looking statements contained in this report represent our best estimates of known and anticipated trends believed relevant to future operations. However, actual results may differ significantly from current estimates. Certain forward-looking statements are included in this report and use such words as "may," "will," "could," "expect," "believe," "plan," "estimate," "project," or other similar terminology. These statements reflect current expectations regarding future events and operating performance as of the date of this report. These forward-looking statements involve a number of risks and uncertainties.

The following are some of the factors that could cause actual results to differ materially from those expressed in, or underlying, forward-looking statements: effectiveness of operating initiatives; rate of electronic diversion; changes in laws and regulations; costs and delays associated with new regulations imposed by the Postal Regulatory Commission (PRC) or other regulatory bodies; the amount of required prefunding payments to the Postal Service Retirement Health Benefits Fund (PSRHBF); success in advertising and promotional efforts; changes in national and local business and economic conditions, including their impact on consumer and business confidence; labor and other operating costs; oil, fuel, and other transportation costs; the effects of war and terrorist activities; competition, including pricing and marketing initiatives and new service offerings by our competitors; consumer preferences or perceptions concerning our service offerings; spending patterns and demographic trends; availability of qualified personnel; severe weather conditions; labor relations; effects of legal claims; cost and deployment of capital; fluctuations in interest rates; and changes in applicable accounting policies and practices. The foregoing list of important factors is not all-inclusive. We have no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in accordance with U.S. Generally Accepted Accounting Principles (U.S. GAAP) requires management to make significant judgments and estimates to develop certain amounts reflected and disclosed in the financial statements. In many cases, there are alternative policies or estimation techniques that could be used. We maintain a thorough process to review the application of accounting policies and to evaluate the appropriateness of the many estimates that are required to prepare the financial statements. Management discusses the development and selection of these accounting policies and estimates with the Audit and Finance Committee of the Board. However, even under optimal circumstances, estimates routinely require adjustment based on changing circumstances and new or better information.

The three accounting policies that are considered either the most judgmental, or involve the selection or application of alternative accounting policies, and are material to the financial statements, are those related to the recording of workers' compensation costs, deferred revenue-prepaid postage, and contingent liabilities.

Workers' compensation costs are highly sensitive to discount and inflation rates and the length of time recipients are expected to stay on the compensation rolls. However, the total annual cash payment for claims is relatively stable and predictable. The workers' compensation costs reflected on our Statements of Operations are subject to actuarial estimates of future claim payments based upon past claim payment experience. Changes in the actuarial and inflation rate estimates and discount rates can significantly impact reported results from period to period. Inflation and discount rates are updated on a quarterly basis.

The discount rate reflects the current rate at which the workers' compensation liabilities could be effectively settled at the measurement date (e.g., the end of the accounting period). In setting the discount rates, we use the current yield, as of the measurement date, on a basket of U.S. Treasury securities that is matched to the expected duration of both the medical and compensation payments.

Expected inflation in compensation claim obligations is estimated using the CPI-U as forecasted by IHS Global Insight in their quarterly report. For medical claims, we use the average rate of medical cost increases experienced by our workers' compensation claimants over the past five years as an estimate for future medical inflation.

Deferred revenue-prepaid postage is an estimate of postage that has been sold, but not yet used by customers. Revenue is recognized only when services are rendered. Because payments for postage are collected in advance of services being performed, revenue is deferred and reflected in the Balance Sheets as *"Deferred Revenue-Prepaid Postage."* The deferred revenue estimate is developed and validated through complex mathematical and statistical methods, including regression analysis of stamp usage trends. Small differences in inputs can lead to significant differences in the estimate of the liability. Two categories of postage sales account for the majority of deferred revenue–prepaid postage: stamp sales and metered postage.

Stamp sales in 2013 totaled $7.5 billion. Deferred revenue on forever stamp sales is estimated using statistical samples of stamped mail exiting our system across the country. The estimated stamp usage is subtracted from stamp sales with the difference representing our obligation to perform future services. We reduce that obligation by recognizing a provision for stamps sold that may never be used; either through loss, damage, or collecting activity, commonly referred to as the "breakage factor." Breakage represents those stamps that will never be used on a mail piece due to loss, damage or having been saved in a collection.

In Quarter II, 2012, we improved the estimation technique employed to estimate deferred revenue-prepaid postage for forever stamps. We obtained new information regarding our customers' stamp usage and retention habits. This enabled us to update our estimate of stamps that will never be used for mailing. As a result of this enhancement, the liability for deferred revenue-prepaid postage was decreased by $59 million. The change was accounted for as a change in accounting estimate, and was therefore reflected in operating results as an increase to revenue in Quarter II, 2012.

During Quarter III, 2013, the Postal Service recorded a non-recurring adjustment of $246 million to decrease the deferred revenue-prepaid postage liability which resulted in an increase to revenue for the quarter. This adjustment was for usage related to Forever stamped envelopes and cards that was previously unrecognized and is considered immaterial to the current and prior periods.

In Quarter IV, 2013, we analyzed data, not previously available, regarding consumer behavior and usage patterns of Forever Stamps. The new information provided better visibility into the usage of Forever Stamps. This indicated that breakage was higher than previously estimated and that other refinements to the estimation process was required. As a result of this new information, we recorded an adjustment to reduce the estimated liability for deferred revenue-prepaid postage for Forever Stamps by approximately $1.3 billion.

Metered postage is primarily used by businesses. Accordingly, the deferred revenue for meters is much smaller as a percentage of annual sales than for stamps because business customers generally manage their cash flow much more closely and purchase postage only as needed. Deferred revenue related to meters is estimated by monitoring the actual usage of all postage meters that had postage added during the month preceding the financial measurement date. The information from the two most recent meter readings allows us to derive a deferral percentage, which is applied to all postage meter receipts for the month. Metered postage receipts in September 2013 subject to deferral totaled $1.1 billion.

We also include in our estimate of deferred revenue-prepaid postage an estimate for mail that is in-transit within the postal system. We do this because the earnings process is not considered complete until mail is delivered to the customer.

The chart below details our deferred revenue-prepaid postage by category.

Deferred revenue - prepaid postage (Dollars in millions)	2013	2012
Forever Stamps	$ 2,179	$ 3,253
Non-Forever Stamps	96	117
Meters	403	362
In-Transit	265	259
Other*	50	23
Total Deferred revenue - prepaid postage	$ 2,993	$ 4,014

* Other consisted primarily of print on-demand labels in 2013. In 2012 and 2011, other consisted primarily of precancelled stamps.

Contingent liabilities require significant judgment in estimating potential losses for legal and other claims. Each quarter, significant new claims and litigation are evaluated for the probability of an adverse outcome. In addition, each quarter any prior claims and litigation are reviewed and, when necessary, the liability balances are adjusted for resolutions or revisions to prior estimates. Estimates of loss can therefore change as individual claims develop and additional information becomes available.

Other critical estimates include retirement and health benefits costs for current retirees and current postal employees who have not yet retired, as they represent a significant portion of expenses. Any change in laws or regulations affecting the amounts, timing, or administration of these benefits could have a material effect on our financial position and results of operations. We participate in the Federal Government pension and retiree health benefits programs, and accordingly account for these using the accounting rules for multiemployer plans. As such, the expense is the amount we are required to contribute to the plans.

In addition, the depreciation and amortization of capital assets over their estimated useful lives require us to make judgments about future events. Because capital assets are utilized over relatively long periods of time, we make periodic evaluations as to whether the estimated service lives remain appropriate. Changes to estimated service lives may affect the amount of depreciation expense recognized in a period and, ultimately, the gain or loss on disposal of the asset.

For further information, see Note 3, *Summary of Significant Accounting Policies*, Note 5, *Property and Equipment*, Note 6, *Leases and Other Commitments,* Note 7, *Contingent Liabilities,* and Note 10, *Workers' Compensation,* in the Notes to the Financial Statements.

RECENT ACCOUNTING PRONOUNCEMENTS

New pronouncements and codification, issued but not effective until after September 30, 2013, are not expected to have a material effect on our financial position or results of operations.

RESULTS OF OPERATIONS

Overview

During 2013, major drivers of operating results included overall customer demand and the mix of postal services, the contribution margins associated with those services, the volume of mail and packages processed through our network, and our ability to manage our cost structure, which includes wages and fuel prices, to match declining volume levels. In addition, the annual legally-mandated PSRHBF prefunding expense and fluctuations in workers' compensation expense due to discount (interest) rates also greatly impacted our results, although these items are not under our control. During 2013, we also had a change in accounting estimate resulting in a one-time adjustment which had an unusually large impact on our revenue and net loss.

In the day-to-day operation of our business, we focus our attention on those costs that are controllable by us in the short term. We exclude the other noncontrollable factors from our internal financial analyses in order to direct focus onto the relevant expenses that management can control and, for example, include only those workers' compensation costs representing current year payments on behalf of postal claimants.

The annual legally-mandated PSRHBF prefunding expense is set by law and is not under the control of management.

The legally-mandated participation in the federal workers' compensation program is managed by the Department of Labor's (DOL) Office of Workers' Compensation Programs (OWCP) and governed by Federal Employees' Compensation Act (FECA), instead of Postal management. Under FECA, many types of workers' compensation claims cannot be settled through lump-sum payments, rather, compensation must be paid over many years. This, compounded by the cost of living adjustments (COLA) granted by Federal Law to those claims, results in substantially higher costs to the Postal Service than would likely be the case if claims management decisions were made by the Postal Service. In addition to the constraints imposed due to the legally-mandated FECA program, actuarial estimations and projected cash payments that will be paid well into the future also have substantial impact on our reported liability. Future cash payments must be converted to present-day dollars, or discounted, by applying the current rates at which the liability could theoretically be settled. Discount rates can fluctuate significantly from period to period with changes in the economic and interest rate environment. Even a very small change in discount rates can have a large impact, as a 1% decrease in rates at September 30, 2013, would have resulted in an increase of approximately $2.1 of the liability. This can, and does, result in the U.S. GAAP workers' compensation expense varying significantly from our cash outlays.

Revenue is recognized based on customer usage of postal services. The estimate for stamps that are purchased but not used is included on our Balance Sheets as a liability, Deferred revenue-prepaid postage. The majority of the deferred revenue balance relates to Forever Stamps which have been sold since 2007 but have not yet entered the mail stream. Since 2007, we have sold more than 65 billion Forever Stamps to the public, totaling $30.2 billion in cumulative stamp sales. A small portion of these sales will never be used on a mail piece (referred to as breakage). Breakage represents those stamps that will never be used on a mail piece due to loss, damage or having been saved in a collection. The usage portion of the deferred revenue estimate is developed and validated through complex mathematical and statistical methods, including regression analysis of stamp usage trends. Small differences in inputs can lead to significant differences in the estimate of the liability. In Quarter IV, 2013, we analyzed data that was not previously available on consumer behavior and usage patterns of Forever Stamps, particularly, Forever Stamps nearing completion of the stamp's lifecycle. This new data, which allowed us to account for the entire life cycle of a series of particular Forever Stamp issues, resulted in an update of the "breakage" input included in the statistical estimation process. As a result of this analysis, we recorded a $1.3 billion increase in revenue and a decrease in Deferred revenue-prepaid postage. This change relates solely to changes in our estimates of consumer behavior and our statistical estimation process. Assumptions regarding estimated breakage of a particular stamp issue can not be refined until the near completion of the stamps' life cycle. In accordance with U.S. GAAP, this is considered a change in accounting estimate in 2013. As a result, our revenue increased and net loss decreased by $1.3 billion in 2013. This adjustment had no impact on our cash balance nor did it lessen the severity of our liquidity situation.

Financial Results

For the first time since 2008, revenue increased compared to the prior year; however, mail volume continued to decline. The decrease in 2013 mail volume follows the continuing trend since 2008. The main causes of this downward trend are changes in consumer behavior patterns that developed during the Great Recession, public adoption of other forms of electronic communication, and slow economic growth. The U.S. economy emerged from this recession in June 2009, but economic growth has been slow, and we have not experienced the revenue growth historically associated with an economic recovery.

In response to these changes, the Postal Service has successfully taken measures to both generate new revenues and substantially reduce costs, the results of which are summarized in the table of Operating Statistics below.

Operating Statistics (Dollars & pieces in millions)		2013		2012		2011
Operating Revenue	$	67,318	$	65,223	$	65,711
PSRHBF Expense	$	5,600	$	11,100	$	-
Net Loss	$	(4,977)	$	(15,906)	$	(5,067)
Total Mail Volume		158,384		159,835		168,297
Average Daily Volume		523		528		555

Significant efforts have been made by the Postal Service to improve revenues and reduce costs that are under management's control. However, we have not been able to completely offset the impacts of declining mail volumes, as that is related mainly to changing customer behaviors. In addition, the accrual of the large PSRHBF prefunding requirement and legally-mandated continuation of six-days-per-week delivery adversely affect our financial results. As discussed in Item 1 – Business - Strategy section of this document, we have proposed legislation to decrease mail delivery by one day, to five-days-per-week. This decrease would not affect our package delivery, which would remain six-days-per-week. However, this legislation has not been enacted.

As discussed above, our current period results are also impacted by items that are not under our control or that are unusual and are not reflective of our normal operations. These items include the annual legally-mandated PSRHBF prefunding expense, fluctuations in workers' compensation expense due to discount (interest) rates, and significant changes in accounting estimates. Because these items are not typical, we believe that analyzing operating results without the impact of certain of these charges provides a more meaningful insight into current operations.

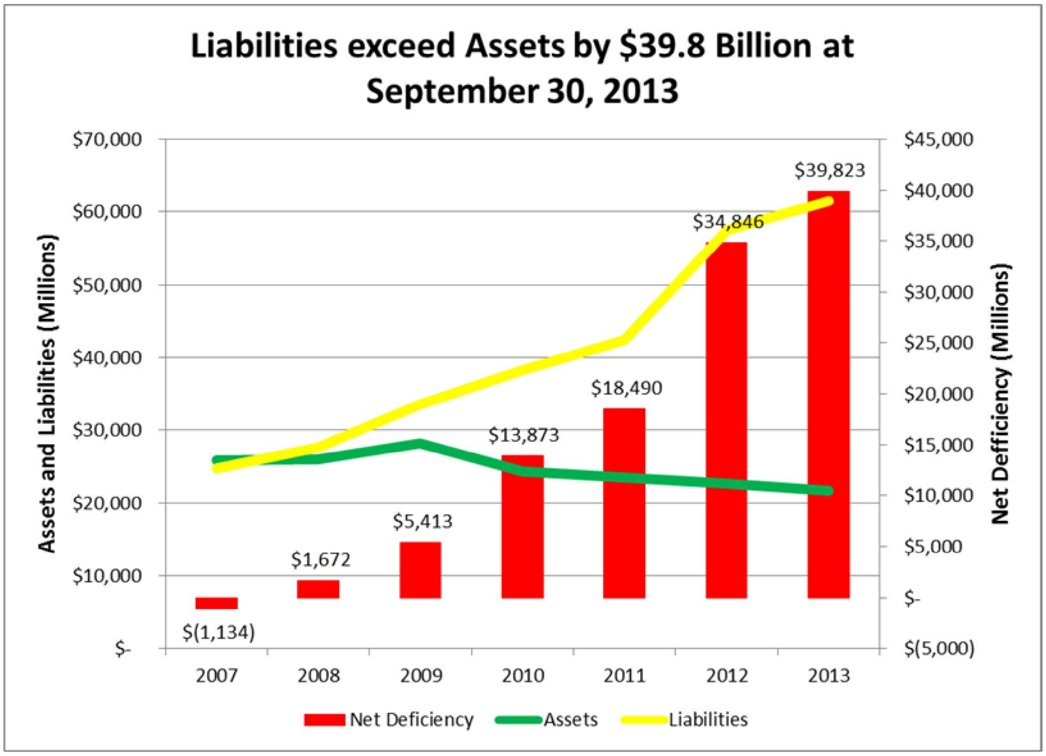
The following tables illustrate the loss from ongoing business activities when these items are not considered, which better reflects the aspects of our financial results that are controllable by management, and reconciles this amount back to our U.S. GAAP net loss and operating expense.

Loss before Impact of Change in Accounting Estimate, Expense Related to the Long-term Portion of Workers' Compensation and PSRHBF Expense (Dollars in millions)		2013		2012		2011
Net Loss	$	(4,977)	$	(15,906)	$	(5,067)
Impact of:						
Changes In Accounting Estimate		(1,316)				
Expense Related to the Long-term Portion of Workers' Compensation		(311)		2,341		2,367
PSRHBF expense		5,600		11,100		-
Loss before Impact of Change in Accounting Estimate, Expense Related to Long-term Portion of Workers' Compensation and PSRHBF Expense	$	(1,004)	$	(2,465)	$	(2,700)

Without the impact of these items, losses would have been $1,004 million in 2013, $2,465 million in 2012, and $2,700 million in 2011.

For the year ended September 30, 2013, operating revenues were $67,318 million, compared to $65,223 million in 2012, an increase of 3.2%. As discussed above, the 2013 revenue increased by $1,316 million due to a change in estimate for the Deferred revenue-prepaid postage liability. Without this change in accounting estimate, revenues would have increased by $779 million or 1.2%, largely driven by growth in Shipping and Packages and Standard Mail.

Shipping and Packages revenue of $12,515 million increased $923 million, or 8.0%, on a volume increase of 210 million pieces, or 6.0%, compared to the same period last year. Higher consumer spending, higher e-commerce retail sales and increased marketing efforts drove much of the growth in Shipping and Packages revenue and volume during 2013.



The above chart demonstrates the trend in assets and liabilities since 2007 demonstrates the impact that our continuing losses have had on our financial stability. Our losses have continued to add to our deficiency between assets and liabilities and it will take years of profitability and legislative reforms to rebalance our assets and liabilities and to eliminate our accumulated net deficiency from the past 7 years. The only way we can achieve the necessary profitability to restore the Postal Service to a sustainable financial position is for Congress to act on our legislative goals as outlined in our five year business plan.

Operating expenses in 2013 were $72,128 million, including $5,600 million of accrued contributions due to the PSRHBF, compared to $80,964 million in 2012, a decrease of $8,836 million, or 10.9%. The primary cause of the expense decrease was the law that changed the date of the scheduled $5.5 billion annual prefunding of the PSRHBF originally due by September 30, 2011, to August 1, 2012. As a result, operating expenses in 2012 included two required PSRHBF expense accruals, whereas 2013 only had one. Even without the effect of the PSRHBF accruals, operating expenses in 2013 decreased by $3,336 million, resulting from efficiency gains, wage restraints, and reductions in workers' compensation expense driven by rising interest rates. Operating expense in 2011 did not include any prefunding expenses related to retiree health benefits, as the $5.5 billion previously scheduled to be paid by September 30, 2011, was changed to no later than August 1, 2012, by the enactment of P.L. 112-74.

A more detailed look into our results of operations follows within our revenue and volume and operating expenses sections.

REVENUE AND VOLUME

Revenue and volume are closely linked to the strength of the U.S. economy and changes in how our customers use the mail. Historically, the more significant factor has been change in the rate of economic growth. However, in recent decades, an additional significant factor has been the rate that relevant new technology has been introduced and accepted in the marketplace and supplanted the role of traditional hard-copy mail, a trend that has accelerated in recent years. Revenue growth is also constrained by laws and regulations restricting the types of products and services we can offer, the prices we can charge, and by our ability to implement products and services and the speed with which we can bring them to market.

Six years after the Great Recession, its lingering economic effects, accompanied by the long-term acceptance and growth of major new technological platforms, have had a significant negative impact on the mailing industry and many of our traditional sources of revenue. Although some changes, such as an increase in the shipment of goods purchased online were positive, the accelerated shift to electronic communication alternatives continues to present significant business challenges in 2013. These challenges are expected to continue for the foreseeable future. Moreover, unlike a private-sector business, the Postal Service is restricted by law from taking certain steps, such as entering new lines of business, that might generate additional revenue to make up for some of the decline in First-Class Mail revenue. In short, revenue growth alone is not foreseen as a solution to the Postal Service's financial challenges.

To date, consumer spending and business investment since the end of the Great Recession have not provided the growth stimulus necessary to boost mail volumes. As a result of the slow recovery from the Great Recession, combined with the long-term impact of technological change, discussed above, we do not anticipate volume ever returning to the levels which we experienced in the mid-2000s. In fact, we anticipate that mail volume will, for the most part, continue to decrease.

The impact of technological and cultural change brought about by the Great Recession has been especially pronounced on our First-Class Mail revenues, which dropped 2.4% in 2013 on a volume decline of 4.1%. Since 2007 when First-Class Mail revenue hit its peak, it has declined 26.7% on a volume decline of 31.6%.

New technology, however, has helped us grow our Shipping and Packages business. In 2013, Shipping and Packages revenue increased 8.0% to $12,515 million in 2013 from $11,592 million in 2012. New services and successful marketing campaigns fueled the growth in our package business.

Prices for Market-Dominant services, which primarily consist of First-Class Mail, Standard Mail, and Periodicals, are capped at the rate of inflation. The prices increased an average of 2.1% in January 2012 and 1.7% in April 2011. Competitive services, the majority of which are Priority Mail Express, Priority Mail, First-Class Package Mail, and Parcel Return Services, increased in price by an average of 9.0%, 4.6%, and 3.6%, in January 2013, 2012, and 2011, respectively.

REVENUE AND VOLUME ANALYSIS

The following chart presents details of our revenues and volumes for the years ended September 30, 2013, 2012, and 2011, by each service line.

Operating Revenue and Volume by Service Line *	2013		2012		2011		Revenue % Change		Volume % Change	
(Dollars and pieces in millions)	Revenue	Volume	Revenue	Volume	Revenue	Volume	2013/2012	2012/2011	2013/2012	2012/2011
First-Class Mail[1]	$ 28,152	65,834	$ 28,856	68,674	$ 30,030	72,522	(2.4)%	(3.9)%	(4.1)%	(5.3)%
Standard Mail[2]	16,915	80,890	16,428	79,496	17,175	83,957	3.0 %	(4.3)%	1.8 %	(5.3)%
Shipping & Packages[3]	12,515	3,711	11,592	3,501	10,670	3,258	8.0 %	8.6 %	6.0 %	7.5 %
International	3,015	902	2,816	926	2,585	987	7.1 %	8.9 %	(2.6)%	(6.2)%
Periodicals	1,658	6,359	1,731	6,741	1,821	7,077	(4.2)%	(4.9)%	(5.7)%	(4.7)%
Other[4]	3,747	688	3,800	497	3,430	496	(1.4)%	10.8 %	38.4 %	0.2 %
Total before Change in Accounting Estimate	$ 66,002	158,384	$ 65,223	159,835	$ 65,711	168,297	1.2 %	(0.7)%	(0.9)%	(5.0)%
Deferred Revenue - Prepaid Postage Change in Estimate[5]	1,316									
Total Revenue and Volume	$ 67,318	158,384	$ 65,223	159,835	$ 65,711	168,297	3.2 %	(0.7)%	(0.9)%	(5.0)%

*Note: The totals for certain mail categories for the prior year have been reclassified to better reflect classifications used in the current year. These reclassifications did not impact total operating revenue for the prior year.

[1] Excludes First-Class Mail Parcels.

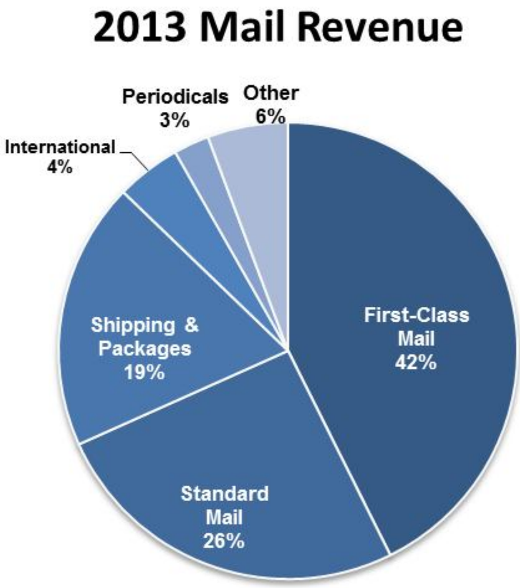
[2] Excludes Standard Mail Parcels.

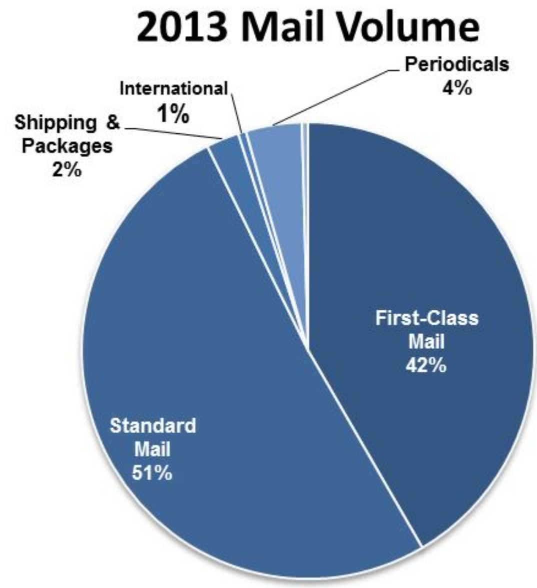
[3] Includes Priority Mail, Standard Post, Parcel Select Mail, Parcel Return Service Mail, Standard Parcels, Package Service Mail, First-Class Mail Parcels, First-Class Package Service, and Express Mail.

[4] Includes PO Box Services, Certified Mail, Return Receipts, Insurance, Other Ancillary Fees, Shipping and Mailing Supplies, and other operating revenue.

[5] Change in accounting estimate for Deferred Revenue - Prepaid Postage. See Results of Operations for details.

In 2013, driven primarily by growth of 8.0% for Shipping and Packages, total revenue including the change in accounting estimate increased $2,095 million or 3.2% compared to 2012. Without the impact of the change in accounting estimate, revenue growth would have been 1.2%. As can be seen from the graphs below, First-Class Mail and Standard Mail provide the vast majority of our revenues, despite trends away from hard copy to electronic media. Combined, these two categories totaled $45,067 million in 2013 and represented almost 68% of our total revenues, before the change in accounting estimate. With consideration of the change in accounting estimate, the categories represent almost 67% of revenues for the year. However, by taking advantage of market changes and developing innovative services, we have been able to grow our Shipping and Packages service to $12,515 million for 2013. These services have grown to approximately 19% of our revenues, both before and after consideration of the change in accounting estimate.





*The graphs above are based on revenue and volume before the change in accounting estimate of $1.3 billion.

We anticipate that total mail volume will continue to decline in future years due to the continued decline of First-Class Mail volume and relatively flat Standard Mail volume. The expected continued decline of First-Class Mail, our most profitable product, will pose a significant challenge. To compensate for the loss of one piece of First-Class Mail, Standard Mail must increase by approximately three pieces. Shipping and Packages, International Mail, and other categories are not expected to grow significantly enough to replace the contribution associated with the decline of First-Class Mail.

FIRST-CLASS MAIL

First-Class Mail is our most profitable service category and represents 43% of revenue before the change in accounting estimate. After the change in accounting estimate, First-Class Mail represents 42% of revenue. In 2013, both revenue and volume of First-Class Mail decreased, albeit at a slower pace than previous years. Since 2006, First-Class Mail volume has dropped from 98.0 billion pieces in 2006 to 65.8 billion pieces for 2013, or approximately 33%. The most significant factors contributing to this decline are the far-reaching impacts of changes in consumer behavior that came about during the Great Recession and the continuing migration toward electronic communication and transactional alternatives.

Single-piece First-Class Mail letter and cards include correspondence, bill payments, confirmations, orders, and rebates. Revenue declined $378 million, or 3.5%, on a volume decrease of 1,315 million pieces, or 5.5%, compared to 2012, continuing a trend that has been in place for over a decade. Revenue from presorted First-Class Mail, which consists largely of bills and statements, decreased by $177 million, or 1.2%, on a volume decrease of 1,380 million pieces, or 3.2%.

Revenue and volume of First-Class Mail also decreased in 2012 from 2011. As previously mentioned, the accelerated migration of mail from traditional postal services to electronic media and the lingering effects on consumer behavior brought on by the Great Recession are the primary drivers behind the continued decline in First-Class Mail volume and revenue.

Price increases for all services in the First-Class Mail category are generally capped at the rate of inflation because these services are classified, by law, as Market-Dominant.

STANDARD MAIL

Standard Mail generates the greatest volume but represented only 26% of total revenues before the change in accounting estimate in 2013. After consideration of the change in accounting estimate in 2013, Standard Mail represents 25% of total revenue. The modest improvement in the economy helped increase Standard Mail revenue by 3.0% in 2013 compared to 2012, on a volume increase of 1.8%. In addition, $263 million of political mail revenue from October and November mailings are included in our results for the year ended September 30, 2013. Technology continues to help advertisers selectively target their mailings, restraining the growth in total pieces sent.

Standard Mail revenue and volume decreased in 2012 compared to 2011. Standard Mail volume was negatively impacted in 2012 due to the ongoing impacts of the Great Recession and correspondingly slow economic recovery, as well as advertisers that became more selective in the targeting of their mailings.

Price increases for all services in the Standard Mail category are generally capped at the rate of inflation because they are classified, by law, as Market-Dominant.

SHIPPING AND PACKAGES

Shipping and Packages revenue continues to show strong year-over-year growth. Shipping and Packages are predominantly competitive services which can be priced to reflect current market conditions although some Market-Dominant services subject to price caps such as First-Class Parcels and certain package services are also included in this category. Responding to the opportunity created by the growth in packages shipped for purchases made online, we have been able to capture a portion of the newly created volume. Ground shipping services have proven to be very popular in e-commerce fulfillment, as companies push to keep their costs low. In addition, new services and successful marketing campaigns have helped fuel this growth. Our new marketing campaign, *Priority: You*, showcases our unique understanding of the needs of Americans today and highlights the new improvements we have made to our Priority Mail service. It centered around one simple promise: that we would prove our reliability every step of the way. We backed this campaign with an updated media plan that spans multiple touch points, including TV, cinema, direct mail, digital and reintroduced magazines and newspapers into the mix. Revenue from First-Class Packages grew 16.5% in 2013, compared to 2012. Parcel Return and Parcel Select Services revenue increased by 20.9%, compared to 2012, as we continue to capitalize on the competitive advantage we have in providing the “last mile” service.

The following table presents detailed revenues and volumes for Shipping and Packages for the years ended 2013, 2012, and 2011, by each service line.

Shipping & Packages Revenue and Volume *	2013		2012		2011		Revenue % Change		Volume % Change	
(Dollars and pieces in millions)	Revenue	Volume	Revenue	Volume	Revenue	Volume	2013/2012	2012/2011	2013/2012	2012/2011
Priority Mail[1]	$ 7,033	926	$ 5,937	824	$ 5,636	790	18.5 %	5.3 %	12.4 %	4.3 %
Parcel Select, Parcel Return, & Standard Parcels	2,105	1,411	1,741	1,288	1,369	1,115	20.9 %	27.2 %	9.5 %	15.5 %
Package Services	808	541	1,589	645	1,581	675	(49.2)%	0.5 %	(16.1)%	(4.4)%
First-Class Packages[2]	1,775	794	1,523	704	1,284	638	16.5 %	18.6 %	12.8 %	10.3 %
Priority Mail Express	794	39	802	40	800	40	(1.0)%	0.3 %	(2.5)%	0.0 %
Total Revenue and Volume	$ 12,515	3,711	$ 11,592	3,501	$ 10,670	3,258	8.0 %	8.6 %	6.0 %	7.5 %

*Note: The totals for certain mail categories for the prior year have been reclassified to better reflect classifications used in the current year.

[1] Includes Standard Post.

[2] Includes First-Class Mail Parcels and First-Class Package Services.

In 2013, Shipping and Packages, which includes premium services, such as Priority Mail and Priority Mail Express, and business-oriented services, such as Parcel Select and Parcel Return Services, represented 2.3% of volume but generated approximately 19% of revenue. Shipping and Packages revenue of $12,515 million increased $923 million, or 8.0%, in 2013 on a volume increase of 210 million pieces, or 6.0%.

Similarly, in 2012, Shipping and Packages represented 2.2% of volume but generated approximately 17.8% of revenue. Revenue and volume for Shipping and Packages also increased in 2012 over 2011.

Priority Mail
Priority Mail, which represented 56% of total Shipping and Packages revenue, increased for the year ended September 30, 2013 compared to last year. Priority Mail Flat Rate advertising campaigns continued to contribute to increased revenues in that category. Initially launched in May 2009, this campaign reinforces the message that the Postal Service is a convenient, simpler solution for shipping. In addition to offering “A Simpler Way to Ship,” Priority Mail continues to offer a compelling value proposition, particularly for retail customers. E-commerce has grown at a higher rate than traditional retail sales, which has helped to boost Priority Mail revenues. This campaign also contributed to the increase in 2012 revenue and volume over 2011. In 2013, we continued to simplify our Priority Mail service to better meet the needs of the public which introduced the new *Priority: You* marketing campaign. Because customers need to know when their package will arrive, we have added date-specific delivery estimates. Because customers want visibility of their package along the way, we have improved our tracking system. And because customers want to be sure that their package will be taken care of, we have included free insurance. All of these improvements were made to give the public more value and all for the same low rate.

Parcel Services
Parcel Services, which include Parcel Select revenue of $1,911 million, Parcel Returns revenue of $124 million, and Market-Dominant Standard Mail Parcels revenue of $70 million, totaled $2,105 million for 2013. These services showed strong revenue and volume growth in 2013 and 2012, but they represent one of our lowest priced services. As a result, they provide a relatively lower level of profitability than many of our other services.

Package Services
The decrease in Package Services volume in both 2013 and 2012 is attributed to customers moving to similarly priced services with expedited shipping times such as Priority Mail.

Because all services in this category are classified as Market-Dominant, price increases for these services are capped.

First-Class Package Services
First-Class Package Services, which include the competitively priced First-Class packages and the Market-Dominant First-Class Mail Parcels, increased in both revenue and volume over 2012. First-Class Mail Parcels continue to perform well as demand grows due to increased online shopping.

The First-Class Package Services category was introduced in 2012 and offers commercial customers that deal primarily with lightweight fulfillment parcels as a competitively priced, reliable option. The First-Class Package Services category as a whole performed especially well as a result of management’s continued emphasis on package service options. The strong growth in these services from the prior year reflects consumers’ response to a product that provides a high level of service at a reasonable price. In 2011, First-Class Package Services only included the Market-Dominant First-Class Mail. The addition of the First-Class Package Services accounts for much of the 16.5% increase between 2013 and 2012.

INTERNATIONAL MAIL
International Mail revenues were $3,015 million and $2,816 million, or 4.5% and 4.3%, of total revenues for 2013 and 2012, respectively. We introduced a First-Class Mail Global Forever Stamp in January 2013. Our online technology helps generate revenue and volume growth by simplifying the complex international mailing process and requirements for our customers. Additionally, a newly designed price information tool for Priority Mail Express and Priority Mail International now gives customers on-the-spot price comparisons.

PERIODICALS
Periodicals revenue was $1,658 million and $1,731 million in 2013 and 2012, respectively, with both years showing declines in both revenue and volume from the prior year. Trends in hard-copy reading behavior and shifts of advertising away from print, as well as broader decreases in overall advertising, have been depressing this segment for years. Periodicals are not expected to rebound as e-readers and electronic content continue to grow in popularity with the public.

OTHER
Other revenue includes ancillary services such as Certified Mail, P.O. Box services, return receipts, and delivery confirmation. In addition, revenue generated from items such as the sales of money orders, passport services, gains from the sales of real estate, and one-time revenue adjustments not applicable to current period performance are also included in this category.

In 2013, we recognized an additional $1,316 million in non-cash revenue related to the one-time change in accounting estimate for deferred revenue-prepaid postage. This accounted for less than 2% of our total revenues and did not affect our liquidity. This change in accounting estimate is discussed in detail within the Results of Operations of this document.

OPERATING EXPENSES

Operating expenses of $72,128 million in 2013 decreased 10.9% from $80,964 million in 2012 due primarily to reductions in retiree health benefit expenses and workers' compensation. In 2013, expenses related to a single scheduled payment to PSRHBF of $5,600 million that was due, compared to two payments that were due in 2012. Workers' compensation decreased in 2013 primarily due to the impact of the fair value adjustments for Workers' Compensation required by changing interest rates. Compensation and benefits expenses also decreased by almost $1 billion driven by work hour reductions and a decrease in the average hourly compensation and benefits rate. Compensation and benefits expenses have decreased every year since 2006.

In contrast, total operating expenses in 2012 increased by $10,330 million, or 14.6%, from 2011 due to the passage of P.L. 112-74 which changed the due date of the scheduled PSRHBF prefunding payment of $5.5 billion originally due by September 30, 2011 to August 1, 2012, which with the previously scheduled prefunding payment of $5.6 billion due by September 30, 2012 resulted in $11.1 billion of RHB expense in 2012. Excluding the impact of the PSRHBF prefunding expense, operating expenses in 2012 would have been $770 million less than in 2011.

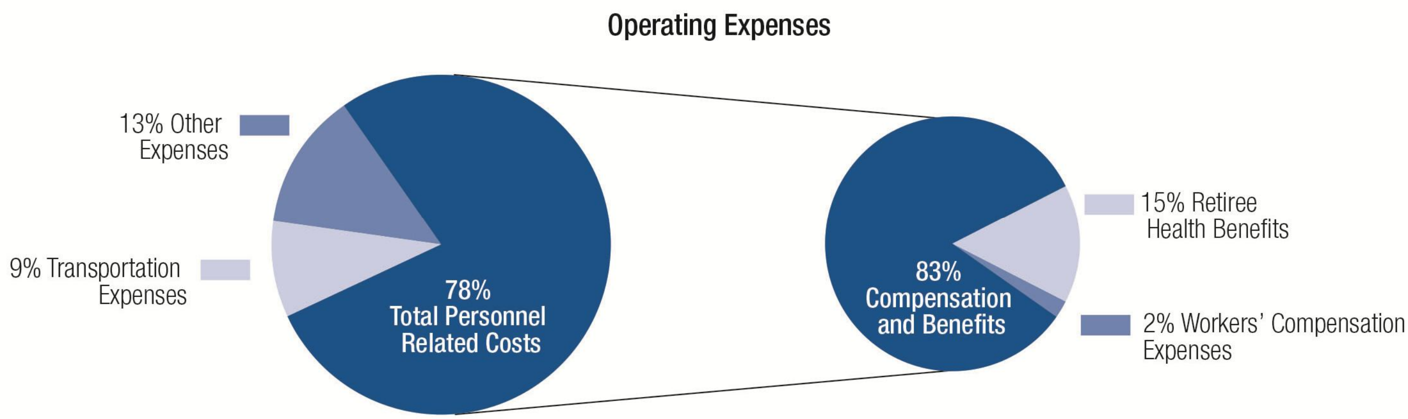
Operating Expenses (Dollars in millions)	2013	2012	2011	% Change 2013 / 2012	% Change 2012 / 2011
Compensation and Benefits	$ 46,708	$ 47,689	$ 48,310	(2.1%)	(1.3%)
Retiree Health Benefit Premiums	2,850	2,629	2,441	8.4%	7.7%
PSRHBF Prefunding	5,600	11,100	-	(49.5%)	-
Workers' Compensation	1,061	3,729	3,672	(71.5%)	1.6%
Transportation	6,735	6,630	6,389	1.6%	3.8%
Other Expenses	9,174	9,187	9,822	(0.1%)	(6.5%)
Total Operating Expenses	$ 72,128	$ 80,964	$ 70,634	(10.9%)	14.6%

As discussed in the Results of Operations section of this document, our current period results are also impacted by items that are not under our control or which are not reflective of our normal operations. These items include the annual legally-mandated PSRHBF prefunding expense, fluctuations in workers' compensation expense due to discount (interest) rates, and significant changes in accounting estimates. Because these items are not typical, we believe that analyzing operating results without the impact of certain of these charges provides a more meaningful insight into current operations. The following table illustrates the operating expenses from ongoing business activities when these items are not considered, and reconciles this amount back to our U.S. GAAP operating expense, which better reflects the aspects of our financial results that are controllable by management.

Operating Expense before Impact of Expense Related to the Long-term Portion of Workers' Compensation and PSRHBF Expense (Dollars in millions)	2013	2012	2011
Operating Expenses	$ 72,128	$ 80,964	$ 70,634
Impact of:			
Expense Related to the Long-term Portion of Workers' Compensation	311	(2,341)	(2,367)
PSRHBF Expense	(5,600)	(11,100)	-
Operating Expense before Impact of Expense Related to the Long-term Portion of Workers' Compensation and PSRHBF Expense	$ 66,839	$ 67,523	$ 68,267

OPERATING EXPENSES - COMPENSATION AND BENEFITS

Compensation and benefits expenses consist of salaries and wages, future retirement benefits earned in current periods, health benefits, plus miscellaneous other expenses incurred on behalf of current employees. Compensation and benefits expenses represented 65%, 59%, and 68%, of total operating expenses for 2013, 2012, and 2011, respectively. However, when total workers' compensation and retiree health benefits, including the legally mandated prefunding of the retiree health benefits, are added, total personnel cost increases to 78%, 81%, and 77%, of total operating expenses for 2013, 2012, and 2011, respectively.



The following table provides details of compensation and benefits for current employees over the past three years.

Compensation and Benefits Expenses (Dollars in millions)	2013	2012	2011	% Change 2013/2012	% Change 2012/2011
Compensation	$ 35,639	$ 36,279	$ 36,821	(1.8%)	(1.5%)
Retirement	5,738	5,854	5,879	(2.0%)	(0.4%)
Employee Health Benefits	4,951	5,187	5,222	(4.5%)	(0.7%)
Other	380	369	388	3.0%	(4.9%)
Total Compensation and Benefits	$ 46,708	$ 47,689	$ 48,310	(2.1%)	(1.3%)

The decreases experienced in total compensation and benefits for both 2013 and 2012 were driven by continued and consistent efforts to efficiently manage work hours and staffing levels, including effective utilization of non-career employees that was significantly expanded in our recent collective bargaining agreements. However, as discussed in further detail in the sections below, despite year-over-year success in reducing work hours, our cost base, including compensation and benefits, remains in excess of what can be supported by mail revenues. We continue to face continued upward pressure from wage increases, cost-of-living adjustments (COLAs), and rising health care premiums.

COMPENSATION EXPENSE

The decrease in compensation expense is driven by a variety of factors in 2013 including a reduction of more than 12 million work hours and the impact of recent changes in our labor agreements which provide greater flexibility to manage our workforce, because it allowed for increased utilization of non-career employees. These savings were partially offset by an increase in the number of overtime hours, contractual wage increases, and COLAs. Overtime hours increased by 14.4% and 3.4% in 2013 and 2012, respectively. The increase in overtime primarily occurred early in 2013 when the composition of the workforce was shifting with the hiring and training of new non-career employees.

Employee costs reflected the following impacts as a result of collective bargaining agreements:

- In 2013, employees represented by the APWU and NRLCA received a 1% general increase, the 2012 deferred COLA adjustments, and 2013 COLA adjustment.
- Members of the NALC and NMPHU did not receive a wage increase or COLA adjustment in 2013.

Through the course of 2013, we reduced our career complement by approximately 37,000, or 7%, down to approximately 491,000 employees. These are significant changes, and follow an approximately 29,000 decrease in career employees in 2012.

The decrease in compensation expense is also driven by our staffing composition between career and non-career employees in the workforce. In 2013, the rapid rise in the use of non-career labor allowed us to replace more expensive career workhours with less expensive non-career workhours. The rate paid to non-career postal workers is less than the rate paid for career employees.

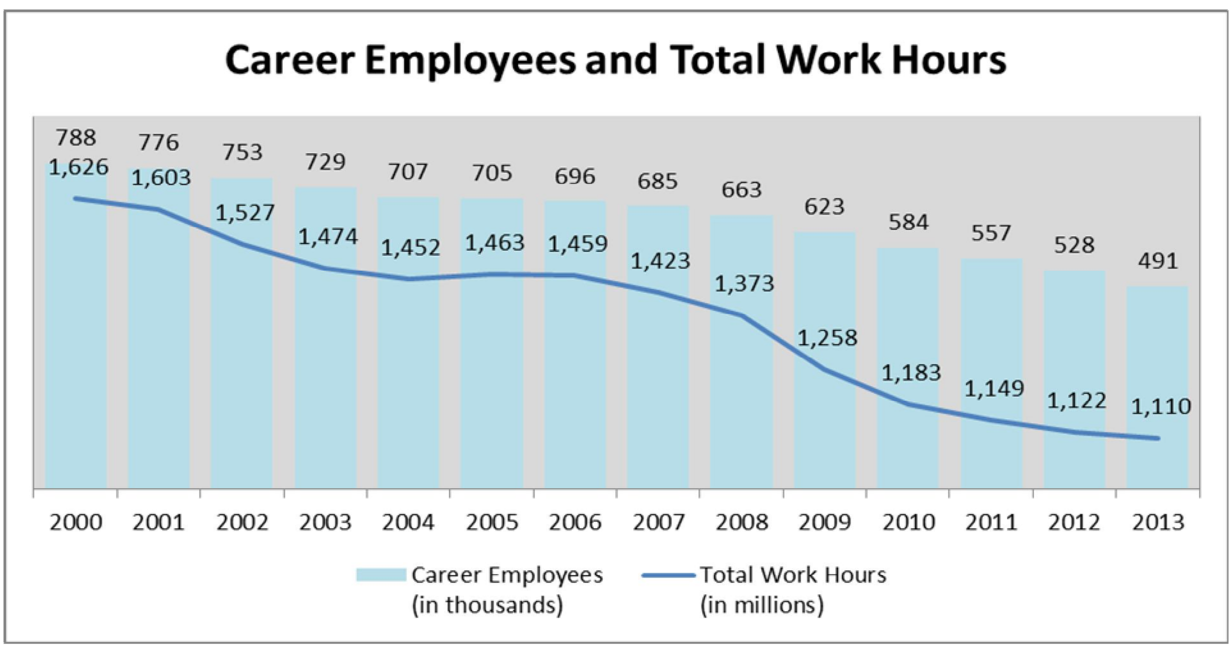
Workforce Breakdown	2013		2012		2011		% Change		
	Employees	% of Total	Employees	% of Total	Employees	% of Total	2013/2012	2012/2011	2013/2011
Career	491,000	79%	528,000	84%	557,000	86%	(7.0%)	(5.2%)	(11.8%)
Non-Career	127,000	21%	101,000	16%	89,000	14%	25.7%	13.5%	42.7%
Total	618,000		629,000		646,000		(1.7%)	(2.6%)	(4.3%)

Between 2011 and 2013, the number of career employees fell approximately 66,000 or 11.8% while the non-career employees rose by approximately 38,000 or 42.7%. Since the end of 2008, the number of career employees has been reduced by approximately 172,000 or 26%. These reductions have been accomplished primarily through attrition and incentives to retire or resign. The number of non-career employees increased by approximately 26,000 in 2013 to 127,000 employees as a result of the increased workforce flexibility available under the new collective bargaining agreements. This increased flexibility allowed us to more efficiently manage the workforce and reduce the average cost per work hour in 2013 below the 2012 level.

The benefits to the Postal Service of the change in staffing composition are not limited to only wage rate savings. Since the overall wage base is lower, as is evidenced by the decrease in compensation expense of approximately $640 million or 1.8%, additional savings is also achieved in reductions in both retirement and health benefits which fell 2.0% and 4.5% respectively.

The net result of these changes in work hour mix was a 1.0% decrease in the average hourly compensation and benefit wage rate.

The following graph details the decline in the number of our career employees and the decline in total work hours (career and non-career) since 2000.



In order to encourage attrition, we have periodically offered targeted separation incentives to employees who agreed to retire or resign within a specified time period. These incentives have targeted postmasters, mail handlers, administrative employees, and those covered by collective bargaining agreements. Incentives are an effective approach to reducing career complement to better match workload and are highly cost-effective, as the cost of the incentive is offset by the cost savings in a matter of months. The incentives offered over the past three years are outlined in the table below.

Separation Incentives

FY Initiated	Impacted Employee Class	Total Monetary Incentive	Employees Accepted	Charge Recorded
2013	APWU Employees	$ 15,000 (a)	22,842	$351 million
2012	Postmasters	$ 20,000 (b)	4,275	
	Mail Handlers	$ 15,000 (b)	2,925	$135 million
2011	Administrative Employees	$ 20,000	2,000	$40 million

(a) A payment of $10,000 was made on May 24, 2013 and $5,000 will be paid on May 23, 2014.

(b) Made in two equal installments on December 21, 2012 and December 20, 2013.

On September 7, 2013, we announced a Voluntary Early Retirement (VER) option for approximately 15,600 eligible managers, supervisors, and local postmasters. Employees who accept the option will not receive any financial incentive to retire. Eligible employees must accept the offer by November 29, 2013 and can choose whether to leave by December 31, 2013, or January 31, 2014. There is no impact to the financial results for the year ended September 30, 2013 as a result of this VER. However, as noted in the table above, we have accrued $351 million and $135 million for separation incentives during the years ended September 30, 2013 and 2012, respectively.

Work hours are an important driver of compensation expense. As illustrated in the chart above, since 2000, work hours have decreased each year except for 2005, when we witnessed a slight increase. Since 2000, work hour reductions have been the single biggest contributor to the ongoing achievement of savings targets. Over that period of time, we have eliminated 516 million work hours, or 31.7%, worth almost $22 billion in annual savings. Work hour reductions are tied to the complement levels, and are the primary method of reducing costs associated with operational initiatives and declining mail volumes.

Total work hours continue to decrease despite annual increases in the number of delivery points. The number of delivery points increased by approximately 774,000 in 2013 and 655,000 in 2012. The growth rate of new delivery points has slowed in recent years, compared to pre-recession levels, due to lower housing starts.

Work Hours by Function (Work Hours in thousands)	2013	2012	2011	% Change 2013/2012	% Change 2012/2011
City Delivery	393,986	389,219	399,010	1.2%	(2.5%)
Mail Processing	203,802	210,170	215,221	(3.0%)	(2.3%)
Rural Delivery	176,697	177,715	177,384	(0.6%)	0.2%
Customer Service Operations	138,477	144,309	150,203	(4.0%)	(3.9%)
Postmasters	56,028	58,429	59,484	(4.1%)	(1.8%)
Other*	140,841	142,309	147,535	(1.0%)	(3.5%)
Total Work Hours	**1,109,831**	**1,122,151**	**1,148,837**	**(1.1%)**	**(2.3%)**

* Including Vehicle Services, Plant Maintenance, Operational Support, and Administration.

These work hour reductions were driven by continued efforts to improve efficiency and to respond to the decline in mail volume. Significant operational initiatives include adjustments to our mail processing and transportation networks, adjustments to the hours of operation of retail units, and delivery changes, such as the consolidation of delivery units and adjustments to delivery routes.

We continually strive to optimize the use of personnel and minimize variable costs. The challenge that remains is to reduce the fixed labor costs. This will require structural changes, many of which require legislative or regulatory approval.

In an effort to aggressively reduce costs in those areas over which we have the most control, as announced in September 2011, we are implementing a strategy to increase the efficiency of our mail processing network. This requires a reduction in the number of mail processing and distribution plants and the rescheduling of transportation routes. On May 17, 2012, we announced a modified, phased plan to continue the consolidation of our network of mail processing locations. In 2013, we consolidated 97 mail processing facilities. This was instrumental in reducing mail processing work hours by over 6 million in 2013.

In 2013, we continued our efforts to consolidate delivery units and centralize business deliveries on a voluntary basis. The majority of the benefit from consolidating delivery units appears in reduced customer service hours. For the year, customer service operations hours decreased by 5.8 million hours. The growth in city delivery work hours reflects the hiring and training of 30,433 city carrier assistants in 2013, which increased the number of city carrier workhours, but lowered the overall cost of the function by $120 million.

The Postal Service is also working to increase the efficiency and reduce the costs of its retail network, while continuing to provide an appropriate level of service to communities throughout America. On May 9, 2012, the Postal Service announced a strategy to preserve the Post Offices serving rural America while providing a framework to achieve significant cost savings. This strategy, known as the POSt Plan, allows Post Offices to remain operational with modified window hours, based on demand. This helped to reduce postmaster workhours and save significantly on the wage rate. In total, postmaster workhours were down by approximately 2.4 million in 2013.

Approximately 90% of career employees are covered by collective bargaining agreements. The contracts with the four labor unions representing the majority of our employees have traditionally included provisions granting COLAs, which are linked to the Consumer Price Index–Urban Wage Earners and Clerical Workers (CPI-W). Under the current APWU and NRLCA contracts, employees represented by these unions did not receive a COLA in 2010 or 2011, and 2012 COLAs were deferred until 2013 when these employees received both years' adjustments applied to the then current wages. Eligible employees covered by NPMHU and NALC collective bargaining agreements received a cost of living adjustment of approximately $980 in September 2011 with an overall annual financial impact of approximately $300 million in 2012.

Non-bargaining unit employee salary rates were frozen in 2011, 2012, and 2013. As a result, non-bargaining employees did not receive pay increases in 2012 or 2013, nor are there increases scheduled for calendar year 2014. These employees did not receive automatic salary increases, nor did they receive COLAs or locality pay.

As a result of management's continued focus on increasing efficiency and decreasing work hours, compensation expense has dropped from $36,877 million in 2002 to $35,639 million in 2013, a decrease of $1,238 million, or approximately 3.4%. This decrease was achieved despite the 33% increase in the hourly compensation rate over this same period and the addition of over 13 million new delivery points.

RETIREMENT EXPENSE

Postal Service employees participate in one of three retirement programs of the U.S. Government, based on their starting date of employment with the Federal Government. These programs are the Civil Service Retirement System (CSRS), Dual CSRS/Social Security System (Dual CSRS), and the Federal Employees Retirement System (FERS). These programs are administered by the Office of Personnel Management (OPM). The funding requirements and timing of employer and employee contributions to the programs can be altered at any time with the enactment of a new law or regulation, or an amendment of existing law or regulation. For additional information, see Note 8, *Retirement Benefit Plans*, in the Notes to the Financial Statements, which is located in Part IV, Item 15 of this Form 10-K.

All expenses of the retirement programs, except for retiree health benefits, are included in compensation and benefits expense. Retirement expense for current employees consists of accrued employer contributions to FERS, the Thrift Savings Plan, and Social Security. P.L. 109-435 suspends until 2017 the employer contributions to CSRS that would otherwise have been required under Title 5, Section 8334(a)(1) of the United States Code. In 2017, OPM will determine whether additional funding is required for the benefit of postal CSRS retirees. As a result of P.L. 109-435, the Postal Service made no contributions to the CSRS and Dual CSRS in 2013, 2012, and 2011.

Retirement expense was 12.3%, 12.3%, and 12.2%, of total compensation and benefits expenses in 2013, 2012, and 2011, respectively. The required agency contribution to the FERS retirement plan was 11.9% for 2013 and 2012, and 11.7% for 2011. Reflecting the lower number of employees in 2013, retirement expense of $5,738 million for current employees was $116 million, or 2.0%, less than the 2012 expense of $5,854 million. In 2012, retirement expense for current employees decreased by $25 million, or 0.4%, from the 2011 expense of $5,879 million, in-line with a lower number of FERS employees. The decrease was partially offset by the increase in the required agency contribution to the FERS retirement plan which grew from 11.7% to 11.9% of employees' basic pay in 2012.

OPM has announced the contribution rate for 2014 will continue to be 11.9%.

P.L. 109-435 REQUIRED REPORTING

As described in Note 3, *Summary of Significant Accounting Policies*, in the Notes to the Financial Statements, which is located in Part IV, Item 15, of this Form 10-K, we account for participation in the retirement programs of the U.S. Government under multiemployer plan accounting rules. Although the Civil Service Retirement and Disability Fund (CSRDF) is a single fund and does not maintain separate accounts for individual agencies, P.L. 109-435 requires certain disclosures regarding obligations and changes in net assets as if the funds were separate. The following information is provided by OPM and represents the most recent actual data available, which is as of September 30, 2012, with projections to September 30, 2013.

FUNDING STATUS

As required by P.L. 109-435, the Postal Service discloses OPM provided information regarding the costs and changes in obligations related to the FERS and CSRS retirement programs. We have reported this information based on OPM-provided actuarial valuations, the same valuations that are used by the Civil Service Retirement System Board of Actuaries to establish the normal cost and funding requirements for these retirement programs. The OPM actuarial valuations utilize the long-term economic assumptions established by the Civil Service Retirement System Board of Actuaries. These assumptions are not specific to the Postal Service; rather they are prepared for the Federal Government as a whole.

The Postal Service's portion of the FERS liability has been overfunded since 1992 and we have, at various times, sought either a reduction in our required payroll contributions or a refund of the overfunded balance. In June 2011, to conserve cash and avoid an interruption of mail service, we sought to apply overfunded balances to amounts currently due for employer contributions and ceased making employer contributions through November 2011. We resumed the regular biweekly FERS employer's contributions and remitted all previously withheld payments in December 2011, including $911 million accrued at September 30, 2011. We continue to seek a refund of the overfunded FERS balance.

OPM's most recent calculation estimates the FERS surplus at $0.9 billion at September 30, 2012, the latest actual data available. OPM had previously estimated that we had overfunded our FERS obligations by approximately $2.6 billion at September 30, 2011. This reduction in the estimated surplus resulted primarily from changes to economic and demographic assumptions made by OPM, as well as actual 2012 experience. OPM currently estimates the FERS surplus will fall to approximately $0.5 billion by September 30, 2013.

The Postal Service believes that, as a matter of equity, its FERS obligation should be estimated using the best available data that most accurately reflects Postal Service-specific demographics and expected pay increases. This means that, instead of using government-wide salary and demographic data to calculate the FERS surplus, which unfairly increases our present and future costs, actual Postal Service salary and demographic data should be used. The Postal Service's FERS surplus would be substantially larger if OPM calculated the liability using available postal data, as experience over the last decade clearly demonstrates that average Postal Service salary increases are significantly lower than the remainder of the Federal Government. The Postal Service has reduced its workforce and is exercising relentless efficiency and cost reduction programs, yet the OPM calculation inappropriately fails to credit the Postal Service for these initiatives. Instead, government-wide factors are used when the Postal Service cannot manage these costs and workforce trends, and accordingly, we continue to request OPM to reconsider its use of such government-wide factors.

Under current law, there is no mechanism for addressing a FERS surplus once it has occurred, nor is there a mechanism for appealing OPM's valuation of our FERS liability, or the normal cost percentage used to determine required contributions. However, in the event that OPM publishes new government-wide contribution percentages, then an agency may appeal to OPM to use agency-specific data, if the agency estimates that its normal cost percentage is at least 10% lower than the OPM calculation. Legislation returning the OPM-estimated surplus and requiring use of Postal Service-specific economic and demographic assumptions is being considered in Congress, but has not reached the floor of either chamber. Until a law is passed that refunds the Postal Service surplus, the OIG report recommends that Postal Service contribution rates be adjusted to reflect the Postal Service-specific assumptions. Accordingly, we continue to request that OPM utilize Postal Service-specific salary and demographic assumptions in its calculations of our FERS liability and normal cost contribution percentage.

The following table provides OPM's estimation of the funded status of the CSRS and FERS programs for Postal Service participants as of September 30, 2012, and 2011, and the projected Postal Service status as of September 30, 2013. The following amounts have been estimated based upon assumptions from Federal Government Employee demographics, rather than the demographics of the Postal Service's workforce.

Present Value Analysis of Retirement Programs as calculated by OPM (9/30/13 latest actual data available)
(Dollars in billions)

	Projected 2013	Actual 2012	Actual 2011
CSRS			
Actuarial Liability 9/30	$ 208.8	$ 209.5	$ 210.8
Current Fund Balance	189.0	190.7	193.0
Unfunded	$ (19.8)	$ (18.8)	$ (17.8)
FERS			
Actuarial Liability 9/30	$ 97.4	$ 90.8	$ 84.0
Current Fund Balance	97.9	91.7	86.6
Surplus	$ 0.5	$ 0.9	$ 2.6
	Projected 2013	**Actual 2012**	**Actual 2011**
TOTAL CSRS and FERS			
Actuarial Liability 9/30	$ 306.2	$ 300.3	$ 294.8
Current Fund Balance	286.9	282.4	279.6
Unfunded	$ (19.3)	$ (17.9)	$ (15.2)

NET PERIODIC COSTS

Information about the net periodic costs for the CSRS and FERS pension plans, which is prepared by OPM, is as follows:

Components of Net Periodic Costs as calculated by OPM
(9/30/13 latest actual data available)
(Dollars in billions)

CSRS	Projected 2013	Actual 2012
Actuarial Liability as of October 1	$ 209.5	$ 210.8
+ Expected Contributions*	0.3	0.3
- Expected Benefit Disbursements	(11.7)	(11.9)
+ Interest Expense	10.7	10.8
+ Total Actuarial Loss	-	(0.5)
Actuarial Liability as of September 30	$ 208.8	$ 209.5
FERS	**Projected 2013**	**Actual 2012**
Actuarial Liability as of October 1	$ 90.8	$ 84.0
+ Normal Cost	3.5	3.5
- Expected Benefit Disbursements	(1.7)	(1.5)
+ Interest Expense	4.8	4.5
+ Total Actuarial Loss	-	0.3
Actuarial Liability as of September 30	$ 97.4	$ 90.8
Total Actuarial Liability as of September 30	$ 306.2	$ 300.3

* Expected contributions for CSRS consists of employee contributions only.

COST METHODS AND ASSUMPTIONS

The Civil Service Retirement Systems (CSRS) is a defined benefit pension plan while the Federal Employees Retirement Systems (FERS) only has a defined benefit component.

The following table outlines the long-term economic assumptions recommended by the CSRS Board of Actuaries on July 1, 2013. The CSRS Board of Actuaries recommended revisions to certain demographic assumptions including additional future mortality improvement, effective for the September 30, 2012 valuation.

Cost Methods and Assumptions

	2013		2012	
	CSRS	FERS	CSRS	FERS
Rate of Inflation	3.00%	3.00%	3.00%	3.00%
Long Term COLA	3.00%	2.40%	3.00%	2.40%
Actual COLA Applied	1.70%	1.70%	3.60%	2.60%
Long Term Salary Increase	3.25%	3.25%	3.25%	3.25%
Actual Salary Increase	0.00%	0.00%	0.00%	0.00%
Long Term Interest Rate	5.25%	5.25%	5.25%	5.25%

COMPONENTS OF NET CHANGE IN PLAN ASSETS

The following table prepared by OPM shows the components of the net change in plan assets for the CSRS and FERS programs.

Analysis of Change in CSRS Pension Net Assets as calculated by OPM
(9/30/12 latest actual data available)
(Dollars in billions)

CSRS	Actual 2012	Actual 2011
Net Assets as of October 1	$ 193.0	$ 194.6
+ Contributions	0.3	0.4
- Benefit Disbursements	(11.4)	(10.9)
+ Investment Income	8.8	8.9
Net Assets as of September 30	$ 190.7	$ 193.0

Analysis of Change in FERS Pension Net Assets as calculated by OPM
(9/30/12 latest actual data available)
(Dollars in billions)

FERS	Actual 2012	Actual 2011
Net Assets as of October 1	$ 86.6	$ 80.8
+ Contributions	3.1	3.4
- Benefit Disbursements	(1.5)	(1.3)
+ Investment Income	3.5	3.7
Net Assets as of September 30	$ 91.7	$ 86.6

As noted previously, CSRDF is a single fund and does not maintain separate accounts for individual employer agencies. The actual securities of the CSRDF are not allocated separately to CSRS or FERS, or to postal and non-postal beneficiaries. The assets of the CSRDF are composed entirely of special-issue U.S. Treasury securities with maturities of up to 15 years. The long-term securities bear interest rates ranging from 1.375% to 6.5%. The CSRDF currently does not have short-term securities.

The assumed rates of return on the CSRS fund balance for 2012 and 2011 were 5.75%, and the actual rates of return were 4.70% and 4.71%, respectively. For the FERS fund, the assumed rates of return for 2012 and 2011 were 5.75%, while the actual rates of return were 4.00% for 2012 and 4.56% for 2011. The projected long-term rate of return on the CSRS and FERS fund balances for 2013 is 5.25%.

OPM estimates the contributions and benefit payments for the next five years as follows:

Projection of CSRS and FERS Contributions and Benefit Payments as calculated by OPM
For the Years 2013 to 2017
(Dollars in billions)

	CSRS		FERS	
	Contributions	Total Benefit Payments	Contributions	Total Benefit Payments
2013	0.3	11.7	3.1	1.7
2014	0.2	12.1	3.0	1.9
2015	0.2	12.5	3.4	2.1
2016	0.2	12.8	3.5	2.4
2017	0.1	13.2	3.4	2.8

HEALTH BENEFITS

Postal employees and retirees may participate in the Federal Employees' Health Benefit Program (FEHBP), which is administered by OPM. The Postal Service accounts for current employee and retiree health benefit costs as an expense in the period in which the contribution is due. For retiree health benefits, multiemployer plan accounting rules are used.

The drivers of active employee healthcare expense are the number of employees electing coverage and the premium costs of the selected plans. On average, the Postal Service paid 78% of the premium cost in 2013 and employees paid the remainder. The average employer contribution was 78% in 2012 and 79% in 2011. The employer contribution percentage for the majority of our employees is subject to collective bargaining agreements. We expect the Postal Service contribution to health benefit premiums to continue to decrease in the future, until they reach the average for the remainder of the Federal Government, which is currently 72%. The total premium cost for each plan is negotiated annually by OPM with each insurance carrier. In September 2013, OPM announced average premium increases of 3.7% for calendar year 2014. Previous increases were 3.4% in 2013, 3.8% in 2012, and 7.2% in 2011.

Total employee health benefit expenses were $4,951 million in 2013, a decrease of $236 million, or 4.5%, compared to $5,187 million in 2012. The 2012 expense of $5,187 million was a decrease of $35 million, or 0.7%, from the 2011 health benefits expense of $5,222 million. The decreases in 2013 and 2012 expenses were driven by the reduction in the number of career employees. Employee health benefits expense was 10.6%, 10.9%, and 10.8% of total compensation and benefits expenses in 2013, 2012, and 2011, respectively.

OPERATING EXPENSES - RETIREE HEALTH BENEFITS

Eligible employees, those with at least five consecutive years of participation in the FEHBP immediately preceding retirement, are entitled to continue to participate in FEHBP after retirement. The amount due the PSRHBF for prefunding in any given year is set by law. That amount, plus our portion of the current premium expense for retirees, is recognized as an expense when due.

P.L. 109-435 made several changes to the way we fund and report the obligation for post-retirement health benefits. The law established the PSRHBF and initially directed that we make annual prefunding payments of between $5.4 billion to $5.8 billion per year through 2016 into the fund. Although P.L. 109-435 specifies the funding requirements through 2016, the amounts to be funded and the timing of the funding can be changed at any time with enactment of a new law or upon amendment of an existing law.

The prefunding amount has been amended several times. On October 1, 2009, P.L. 111-68 became law and decreased the scheduled 2009 payment by $4.0 billion, from $5.4 billion to $1.4 billion. On September 30, 2011, P.L. 112-33, *Continuing Appropriations Act, 2012,* rescheduled the PSRHBF payment of $5.5 billion previously scheduled to be due by September 30, 2011, to be due by October 4, 2011. This date was then rescheduled by a number of laws subsequently passed. The most recent law affecting the PSRHBF payment, P.L. 112-74, *Consolidated Appropriations Act, 2012*, rescheduled the due date to August 1, 2012. As a result, the total required PSRHBF payments in 2012 were $11.1 billion: $5.5 billion due by August 1, 2012, and $5.6 billion due by September 30, 2012. The required PSRHBF payment in 2013 was $5.6 billion.

Because we had insufficient funds to make the payments, we were forced to default on the required $11.1 billion prefunding payments for retiree health benefits which were due by September 30, 2012 and the $5.6 billion payment due by September 20, 2013. Prior to the defaults, we notified key stakeholders, including the Administration and the Congress, of the imminent default. We have further advised these same stakeholders that we do not see any means by which to satisfy the future payment of $5.7 billion due by September 30, 2014. Although we defaulted on both of the payments in 2012 and the one payment in 2013, the full $11.1 billion that was due as of September 30, 2012 was recorded as an expense under "Retiree health benefits" in the 2012 Statements of Operations and as a current liability in "Retiree health benefits" on the September 30, 2012 Balance Sheets. The $5.6 billion 2013 payment is included in the "Retiree health benefits" in the 2013 Statements of Operations and the cumulative liability is now $16.7 billion as of September 30, 2013.

Current law obligates us to make additional payments of $5.7 billion in 2014 and 2015, and $5.8 billion in 2016, each due by September 30 of each respective year. To date, no law changes have addressed the original prefunding requirements for 2014 to 2016. However, given the low levels of our cash resources, we may be forced to prioritize payments to our employees and our suppliers to ensure that we continue to be able to fulfill our other statutory obligations, including our obligation to provide universal mail service to the nation (as discussed in Note 2*, Liquidity Matters,* in the Notes to the Financial Statements, located in Item 15 of this Form 10-K*).* The statutory requirement establishing the payment schedule (P.L. 109-435) contains no provisions addressing a payment default. As of November 15, 2013, no penalties have resulted.

Under current law, not later than 2017, OPM will conduct an actuarial valuation and determine whether any further payments into the PSRHBF are required. If additional payments are required, OPM will design an amortization schedule to fully amortize the remaining liability by 2056. Beginning in 2017, the PSRHBF will begin to pay the Postal Service's portion of the retiree health premiums. Also beginning in 2017, we will be required to fund the actuarially determined normal cost, plus any required amortization of the unfunded liability.

Under P.L. 109-435, OPM continues to charge us for the premiums for postal retirees participating in FEHBP, and we continue to expense these payments as they become due. This will occur until 2017. The major drivers of retiree health benefits premium costs are the number of retirees and survivors on the rolls, the mix of plans selected by retirees, the premium costs of those plans, and the apportionment of premium costs to the Federal Government for retiree service prior to 1971.

Retiree health benefit premium expense, which is exclusive of the expense for prefunding the PSRHBF, has increased every year due to premium increases, the growing number of retirees, and the increasing percentage of post-1971 service of our retirees. Retiree health benefits premium expense increased 8.4% in 2013, 7.7% in 2012, and 8.6% in 2011. The number of Postal Service annuitants and survivors participating in FEHBP was approximately 491,000 in 2013, compared to 471,000 in 2012 and 469,000 in 2011.

The following table shows the components of retiree health benefits expense for 2013, 2012, and 2011.

Retiree Health Benefits (Dollars in millions)	**2013**	**2012**	**2011**
Retiree Health Benefits Premiums	**$ 2,850**	**$ 2,629**	**$ 2,441**
P.L. 109-435 Payment to PSRHBF	**5,600**	**11,100**	**-**
Total Retiree Health Benefits	**$ 8,450**	**$ 13,729**	**$ 2,441**

P.L. 109-435 REQUIRED REPORTING - PSRHBF

P.L. 109-435 requires that OPM provide, and that we report, certain information concerning the obligations, costs, and funded status of the PSRHBF. The following table presents information provided by OPM and shows the funded status and components of net periodic costs.

Postal Service Retiree Health Benefit Fund Funded Status and Components of Net Periodic Costs as calculated by OPM * (Dollars in millions)	2013	2012
Beginning Actuarial Liability at October 1	$ 93,575	$ 90,337
- Actuarial Gain	(1,923)	(1,148)
+ Normal Costs	2,673	2,725
+ Interest @ 4.4% and 4.7%, respectively	4,033	4,192
Subtotal Net Periodic Costs	4,783	5,769
- Premium Payments	(2,744)	(2,531)
Actuarial Liability at September 30	95,614	93,575
- Fund Balance at September 30	(47,292)	(45,744)
Unfunded Obligations at September 30	$ 48,322	$ 47,831

* The 2013 medical inflation rate which is assumed to be 3.0% per annum as of the valuation date, rising to 5.6% in 2021 and then grading down to an ultimate value of 4.2%. The 2012 medical inflation assumption was 3.7% as of the valuation date and increases to 6.2% in 2026 before it grades down to an ultimate value of 4.4%.

The table above shows that despite our inability to pay the required PSRHBF prefunding payments in 2012 and 2013, the Postal Service has funded 49% of the actuarial liability as of September 30, 2013 and 2012.

The OPM valuation of post-retirement health liabilities and normal costs was prepared in accordance with Federal Accounting Standards Advisory Board (FASAB) Statement of Federal Financial Accounting Standards (SFFAS) No. 5 and SFFAS No. 33, which require the use of the aggregate entry age normal actuarial cost method.

Demographic assumptions and an interest rate assumption of 4.4% are consistent with the pension valuation assumptions, and decrements are based upon counts or numbers rather than dollars.

The normal cost, which is on a per-participant basis, is computed to increase annually by a variable medical inflation rate which is assumed to be 3.0% per annum as of the valuation date, increasing to 5.6% in 2021, and then trending down to an ultimate value of 4.2%. Past-year medical inflation was assumed to be 5.2%, grading down to an ultimate value of 4.4%. Normal costs are derived from the current FEHBP on-roll population with an accrual period from entry into FEHBP to assumed retirement. Entry into the FEHBP is generally later than entry into the retirement systems.

The accrued liability is equal to the total liability less future normal cost payments. The amounts used in these valuations use the same methodology and assumptions as OPM's financial statements, except that the average government share of premium payments for annuitants is substituted for annuitant medical costs less annuitant premium payments. This amount is assumed to increase at 3.7% per annum as of the valuation date, rising to 6.2% in 2026 before trending down to an ultimate value of 4.4%. For current postal annuitants, the government share of premium payments is adjusted to reflect the pro-rata share of civilian service to total service for which the Postal Service is responsible. The pro-rata adjustment is made by applying calculated factors based upon actual payments that vary by the age and Medicare status of the enrollments. For active postal employees, the pro-rata share in retirement is assumed to be 93% of the total.

The following table shows the net assets of the PSRHBF:

Net Assets of Postal Service Retiree Health Benefit Fund as calculated by OPM (Dollars in millions)	2013	2012
Beginning Balance at October 1	**$ 45,744**	**$ 44,118**
Contributions and Transfers	**-**	**-**
Earnings at 3.6% and 3.7%, respectively	**1,548**	**1,626**
Net Increase	**1,548**	**1,626**
Fund Balance at September 30	**$ 47,292**	**$ 45,744**

The assets of the PSRHBF are comprised entirely of long-term, special-issue U.S. Treasury securities with maturities of up to 14 years. The long-term securities bear interest rates ranging from 1.375% to 5.00%. The expected rate of return was unavailable for 2013, and 4.7% for 2012 and the actual rates of return were 3.6% for 2013, and 3.7% for 2012.

Because calculation of this liability involves several areas of judgment, estimates of the liability could vary significantly depending on the assumptions used. Utilizing the same underlying data that was used in preparing the estimate in the table above, the September 30, 2013, unfunded obligation could range from $35 billion to $64 billion, solely by varying the inflation rate by plus or minus 1%, and the 2012 unfunded obligation would range from $35 billion to $63 billion.

PSRHBF Commitment (Dollars in millions)	P.L. 109-435 Requirement
2014*	**$ 22,400**
2015	**5,700**
2016	**5,800**
2017**	**-**
2018**	**-**
Total PSRHBF Commitment	**$ 33,900**

* Amount listed for 2014 amount includes the $16.7 billion defaults from 2012 and 2013.

** Effective in 2017, the unfunded liability will be calculated by OPM. We are obligated to fund the actuarially determined normal cost and the amortized portion of the unfunded liability. Currently, these amounts cannot be estimated.

OPERATING EXPENSES - WORKERS' COMPENSATION

Postal employees injured on the job are covered by the Federal Employees' Compensation Act (FECA), administered by the DOL's Office of Workers' Compensation Programs (OWCP), which makes all decisions regarding injured workers' eligibility for benefits. However, we annually reimburse the DOL for all workers' compensation benefits paid to or on behalf of postal employees, and pay an administrative fee to DOL.

An estimation model that combines four generally accepted actuarial valuation techniques is used to project future claim payments based upon past claim-payment experience and exposure to claims as measured by total hours worked by our employees.

A liability is recorded for the present value of estimated future payments to postal employees, or their qualified survivors, who have been injured through the end of the reporting period. The estimated total cost of claims, segregated by the date of the injury, based on the pattern of historical payments, frequency (number of claims per hours worked) or severity (average cost per claim) of the claim-related injuries, and the expected trend in future costs. The liability for claims arising more than ten years ago is determined by an independent actuary. The existing FECA benefit structure is often superior to benefits available under normal federal retirement, and these more lucrative payments will, in some cases, be for the rest of the lives of the claimants.

The liability for estimated future workers' compensation payments is recorded at its present value. To record the liability and annual expense, an estimate is made of the amount of funding that would need to be invested at current interest rates in order to fully fund all estimated future payments. Inflation and discount (interest) rates are updated as of the date of the financial statements to determine the present value of the workers' compensation liability at the balance sheet date, in accordance with U.S. GAAP. The impact of changes in the discount and inflation rates is accounted for as a change in accounting estimate and included in operating expenses.

The estimation of the liability is highly sensitive to changes in discount rates. An increase of 1% in the discount rate would decrease the September 30, 2013 liability and 2013 expense by approximately $1.7 billion. A decrease of 1% in the discount rate would increase the September 30, 2013 liability and 2013 expense by approximately $2.1 billion.

At September 30, 2013, the present value of the liability for future workers' compensation payments was $17,240 million, compared to $17,567 million at September 30, 2012, a decrease of $327 million, or 1.9%. The current portion of the liability was $1,322 million at September 30, 2013. At September 30, 2012, the current portion of the liability was $1,337 million.

Changes in the workers' compensation liability are attributable to the combined impact of changes in the discount and inflation rates, routine changes in actuarial estimation, new compensation and medical cases, and the progression of existing cases. The impact of changes in discount rates accounted for a decrease of $1,745 million in the 2013 expense and increases of $346 million and $978 million in the 2012 and 2011 expense, respectively.

Beginning in Quarter III, 2009, we experienced a significant change in the discount rates used to estimate the workers' compensation liability. The Great Recession and corresponding response by the Federal Reserve resulted in interest rates declining significantly. U.S. GAAP requires us to use discount rates based on the best available information at the measurement date. The discount rates used in estimating the present value of the workers' compensation liability have fluctuated every year since 2008. Since 2008, over $2.3 billion of the growth in the workers' compensation liability is attributable solely to the impact of discount rate changes.

The inflation and discount rates used to estimate our liability at September 30, 2013, 2012, and 2011 are shown in the following table.

Workers' Compensation Liability	September 30,		
Inflation and Discount Rates	2013	2012	2011
Compensation Claims Liability			
Discount Rate	**3.0%**	**2.1%**	**2.3%**
Long-term COLA	**2.9%**	**2.9%**	**2.9%**
Medical Claims Liability			
Discount Rate	**3.0%**	**2.2%**	**2.4%**
Medical Inflation	**9.1%**	**8.9%**	**8.6%**

In Quarter IV, 2012, the Postal Service enhanced the estimation process by refining the variables employed to estimate its workers' compensation liability. As a result of this enhancement, the liability for workers' compensation was increased by $361 million. This change was considered a change in accounting estimate under U.S. GAAP, and accordingly, the impact of the change was reflected in Quarter IV, 2012. There was no similar change in either 2013 or 2011.

The components of workers' compensation expense are as follows:

Workers' Compensation Expense (Dollars in millions)	Years Ended September 30, 2013	2012	2011
Impact of Discount Rate Changes	$ (1,745)	$ 346	$ 978
Actuarial Revaluation of Existing Cases	949	1,602	1,264
Subtotal	(796)	1,948	2,242
Costs of New Cases	1,789	1,714	1,367
Administrative Fee	68	67	63
Total Workers' Compensation Expense	$ 1,061	$ 3,729	$ 3,672

In 2013, workers' compensation expense was $1,061 million, a decrease of $2,668 million, or 71.5%, compared to 2012. This was driven by a decrease in the present value of the liability caused by higher interest rates in 2013 and by a lower actuarial revaluation of existing claims, compared to 2012. For the year ended September 30, 2013, the Postal Service experienced a $40 million, or 4.7%, decrease in compensation claim payments and a $28 million, or 6.2%, increase in medical claims payments compared to the year ended September 30, 2012. The bulk of compensation payments are due to claims on the periodic roll, with benefit payments being made every 28 days. In 2012, there were 14 such payments, while a typical year has 13. For this reason, compensation payments in 2012 were higher than 2013.

In 2012, workers' compensation expense was $3,729 million, an increase of $57 million, or 1.6%, compared to 2011. For the year ended September 30, 2012, the Postal Service experienced a $93 million, or 12.2%, increase in compensation claim payments and a $13 million, or 2.8%, decrease in medical claims payments compared to the year ended September 30, 2011. The increase in compensation payments for 2012 continued to be pronounced after a reassessment of employees on permanent rehabilitation or limited-duty status resulted in an increase in benefit payments to some beneficiaries. In addition, as noted earlier, 2012 had 14 periodic roll payments.

As noted above, we are legally-mandated to participate in the federal workers' compensation program that is managed by the DOL's Office of Workers' Compensation Programs (OWCP) and governed by Federal Employees' Compensation Act (FECA). Under FECA, many types of workers' compensation claims cannot be settled through lump-sum payments, rather, compensation must be paid over many years. This, compounded by the cost of living adjustments (COLA) granted by Federal Law to those claims, results in substantially higher costs to the Postal Service than would likely be the case if claims management decisions were made by the Postal Service. In addition to the constraints imposed due to the legally-mandated FECA program, actuarial estimations and projected cash payments that will be paid well into the future also have substantial impact on our reported liability. Future cash payments must be converted to present-day dollars, or discounted, by applying the current rates at which the liability could theoretically be settled. Discount rates can fluctuate significantly from period to period with changes in the economic and interest rate environment. Even a very small change in discount rates can have a large impact, as a 1% decrease in rates at September 30, 2013 would have resulted in an increase of approximately $2.1 billion of the liability.

The table below highlights the large differences between actual claims paid on behalf of Postal Service workers, compared to the total workers' compensation expense that includes fluctuations in discount rates, inflation rate increases, and projections of amounts that may not be paid until well into the future.

Workers' Compensation Expense (Dollars in millions)	Years Ended September 30, 2013	2012	2011
Total Workers' Compensation Expense	$ 1,061	$ 3,729	$ 3,672
Claims Paid on Behalf of Postal Service's Workers' Compensation Obligations	1,372	1,388	1,305
(Income)/Expense Related to the Long-Term Portion of Workers' Compensation	$ (311)	$ 2,341	$ 2,367

OPERATING EXPENSES - TRANSPORTATION

Transportation expenses are primarily comprised of contracted highway, air, and international transportation costs. Among these categories, fluctuations are mostly due to changes in fuel costs, and variations in the volume and weight of mail being transported. Transportation expenses in 2013 were $6,735 million, an increase of $105 million, or 1.6%, compared to 2012. Transportation expenses in 2012 were $6,630 million, an increase of $241 million, or 3.8%, compared to 2011.

Transportation Expenses (Dollars in millions)	2013	2012	2011	% Change 2013 / 2012	% Change 2012 / 2011
Highway	$ 3,410	$ 3,378	$ 3,343	0.9%	1.0%
Air	2,378	2,259	2,110	5.3%	7.1%
International	906	950	886	(4.6%)	7.2%
Other	41	43	50	(4.7%)	(14.0%)
Total Transportation Expenses	$ 6,735	$ 6,630	$ 6,389	1.6%	3.8%

Highway Transportation

Even though fuel costs are only a portion of total highway transportation expense, they are the primary driver behind the increase of highway transportation expenses in 2013. Diesel fuel, which represents approximately 92% of all fuel purchased, cost an average of $3.96 per gallon during 2013, compared to $3.93 per gallon in 2012, an increase of 0.8%. Partially offsetting the increases in fuel costs in 2013 was a 1.4% decrease in highway miles driven compared to 2012, as a result of national and local surface transportation utilization improvement initiatives.

Highway transportation expenses increased in 2012 from 2011, again driven mostly by the cost of fuel. Diesel fuel costs averaged $3.93 per gallon during 2012, compared to $3.66 per gallon in 2011, an increase of 7.4%. A 3.8% decrease in highway miles driven compared to 2011 helped temper the impact of the sharply higher fuel costs.

Air Transportation

The shift in our product mix, which has favored the shipping and package business has resulted in an increase of 5.3% in domestic air transportation expenses in 2013 from 2012, despite the decrease in jet fuel costs. Higher jet fuel costs resulted in an increase of 7.1% in 2012 over 2011.

International Transportation

Expenses that are required to transport international mail include both the physical transportation of the mail to the foreign destinations and fees payable to foreign postal administrations for the transportation of mail within their country. The largest component of international transportation expense, foreign postal transaction fees, represented 70%, 71%, and 78% of the total international transportation expense in 2013, 2012, and 2011, respectively.

The primary driver of the decrease in international transportation expense in 2013 is a decrease in fees paid to foreign postal administrations. This represents the fee that we pay to foreign postal administrations for transportation and delivery of mail within their country and tends to vary with timing and customer demand for services.

For 2012, international transportation expense increased $64 million, or 7.2%, compared to 2011 driven by payments made to civilian air carriers for rate and volume increases.

OPERATING EXPENSES - OTHER OPERATING EXPENSE

For 2013, other operating expenses of $9,174 million decreased $13 million, or 0.1%, compared to $9,187 million in 2012.

Other Operating Expenses (Dollars in millions)	2013	2012	2011	% Change 2013 / 2012	% Change 2012 / 2011
Supplies and Services	$ 2,400	$ 2,263	$ 2,260	6.1%	0.1%
Depreciation and Amortization	1,901	2,075	2,313	(8.4%)	(10.3%)
Rent and Utilities	1,582	1,623	1,682	(2.5%)	(3.5%)
Vehicle Maintenance Service	1,040	995	974	4.5%	2.2%
Information Technology and Communications	720	695	695	3.6%	0.0%
Rural Carrier Equipment Maint. Allowance	558	579	554	(3.6%)	4.5%
Miscellaneous Other	973	957	1,344	1.7%	(28.8%)
Total Other Operating Expenses	$ 9,174	$ 9,187	$ 9,822	(0.1%)	(6.5%)

In 2013, management continued its efforts to control costs and limit non-essential spending to conserve cash. Depreciation and Amortization decreased $174 million or 8.4% from 2012. Rent and Utilities decreased by $41 million or 2.5%. Both were driven by a freeze in non-essential capital spending and our overall efforts to reduce square footage of postal facilities. Rural carrier equipment maintenance costs decreased $21 million or 3.6% due to the reallocation of postal-owned vehicles onto rural routes.

These decreases were offset by increases in supplies and services and miscellaneous other expenses. The increase in supplies and services of $137 million or 6.1% in 2013 is largely caused by the need to replace shipping supplies required by our rebranding of our Priority Mail products. Total vehicle maintenance service expense increased by $45 million or 4.5% primarily related to fuel costs. Fuel costs, which rose in both 2013 and 2012, accounted for 52% and 53% of the total vehicle maintenance service expense for 2013 and 2012, respectively. The other significant driver of vehicle maintenance expense is the increasing cost to maintain our aging delivery vehicle fleet. Miscellaneous Other operating expense increased $16 million or 1.7% primarily due to changes in the estimate of new and existing contingent liabilities, a result of the ongoing evaluation process.

In 2012, depreciation and amortization decreased $238 million or 10.3% compared to 2011, as capital spending had been limited. Rent and utilities expense was $59 million or 3.5% lower than 2011 as the number of postal facilities and related square footage declined. Miscellaneous other operating expense decreased by $387 million compared to 2011. A significant portion of the miscellaneous other expense in 2011 was driven by legal expenses associated with the contingent liability evaluation process. These decreases were partially offset by increases in supplies and services of $3 million or 0.1%, rural carrier equipment maintenance of $25 million or 4.5%, and vehicle maintenance services of $21 million or 2.2% from 2011.

PRODUCTIVITY

The Postal Service is continually striving to increase efficiency by making better use of space, staffing, equipment, and transportation to process and deliver the nation's mail. Generating efficiencies has become increasingly important, given the significant reduction over the last several years in the amount of First-Class Mail. Declines in mail volume have driven the continuous revaluation and right-sizing of capacity from the mail processing network that is critical to managing costs. Increased electronic access to our services through alternate access channels, such as Click-n-Ship, PC Postage, and Automated Postal Centers, continue to reduce the requirement for customer service work hours.

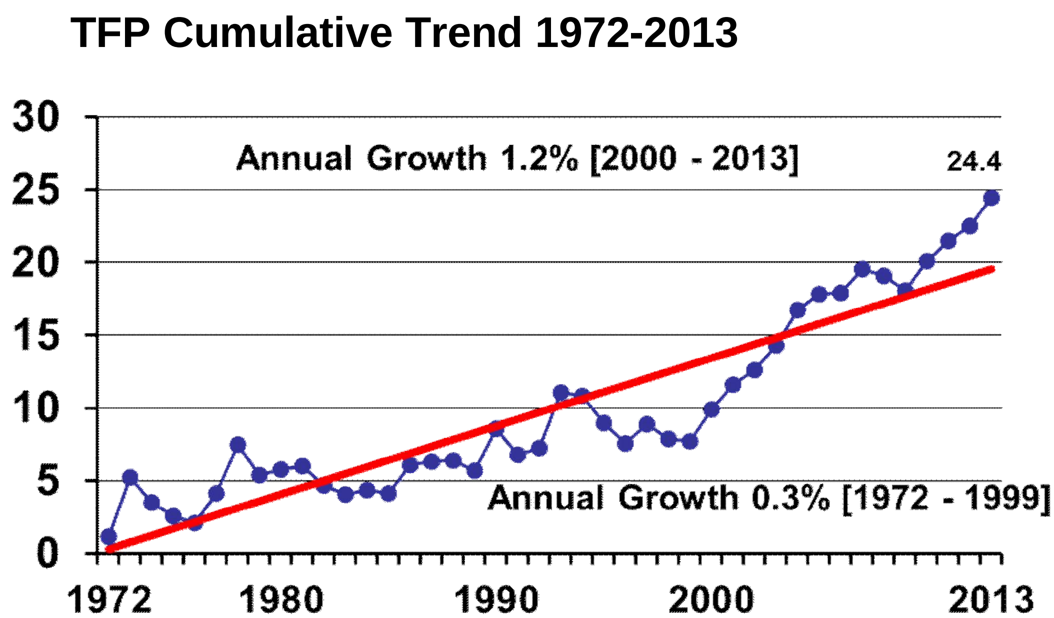
Since 2006, the Postal Service has consolidated 350 mail processing facilities, removed nearly 4,150 pieces of equipment, and decreased employee complement by more than 200,000.

We are also working to increase efficiency and reduce the costs of our retail network, while continuing to provide appropriate levels of service to communities throughout America. On May 9, 2012, we announced a strategy, called the POSt Plan, to preserve Post Offices serving rural America while providing a framework to achieve significant cost savings.

In 2013, we reduced work hours by 12 million, or 1.1%. These reductions are discussed in detail in Compensation and Benefits.

Operating efficiency, as measured by Total Factor Productivity (TFP), increased 1.9% in 2013 compared to 2012. This marks the fourth year of positive TFP growth since 2009, with cumulative TFP growth of 24.4% since 1972. Productivity gains are a result of effective workforce management, efficient use of material (supplies, services, and transportation), and maximizing the return on capital investments (mainly automation projects). Work hours in 2013 decreased by 12 million, or 1.1%, despite an increase of approximately 774,000 delivery points during 2013. Mail volume declined 0.9%. In 2012, work hours were reduced by 27 million, or 2.3%, with an increase of approximately 655,000 delivery points, while overall mail volume declined 5.0%.

The following graph shows the cumulative TFP trend from 1972 through 2013.



LIQUIDITY AND CAPITAL RESOURCES

LIQUIDITY CONCERNS

We continue to suffer from a severe lack of liquidity. We held unrestricted cash of $2.3 billion and $2.1 billion as of September 30, 2013 and 2012. These cash balances represent approximately 9 days and 8 days, respectively, of average daily expenses. We had no remaining borrowing capacity on our $15 billion debt facility as of September 30, 2013 or 2012 (see Note 4 - *Debt*, for additional information). On October 15, 2013, when we had to make our annual legally mandated workers' compensation payment to DOL, we had a cash balance on hand of approximately 6 days of our average daily expenses. This low level of available cash forced us to default on the $5.6 billion legally-mandated prefunding of retiree health benefits due by September 30, 2013. Further, this level of cash could be insufficient to support operations in the event of another significant downturn in mail volume.

We have suffered 8 consecutive quarters of net losses and have had net losses in 18 of the last 20 quarters. The net loss of $4,977 million for the year ended September 30, 2013 included $5.6 billion of expense accrued for the legally-mandated prefunding payment for retiree health benefits, on which we were forced to default. The loss also included $1.3 billion of non-cash revenue recognized for a change in accounting estimate and a non-cash reduction in workers' compensation expense of $1.7 billion resulting from an increase in interest rates and other non-cash adjustments to the long-term liability. These non-cash items, which reduced the net loss, did not impact liquidity.

In addition to the requirement to prefund $5.6 billion of retiree health benefits for 2013, we are required and continue to pay the employer's share of the health insurance premiums for our retirees. This cost was $2.9 billion in 2013 and is projected to increase to $3.1 billion for 2014. In the past seven fiscal years, since the enactment of the Congressionally-mandated prefunding, we have incurred $46 billion of net losses, including $38 billion of expenses for prefunding retiree health benefits. Through 2013, we have paid $21 billion of cash into the PSRHBF for prefunding, plus an additional $17.1

billion that was transferred in 2007 from the then-overfunded CSRS fund. Since 2006, our debt has increased by nearly $13 billion, reaching the $15 billion borrowing limit at the end of 2012, and remaining there at September 30, 2013.

We were forced to default on $16.7 billion of required prefunding payments to the PSRHBF for retiree health benefits in 2012 and 2013. This $16.7 billion is reflected as a current liability on the September 30, 2013 Balance Sheets. The statutory requirement establishing the prefunding payment schedule, P.L. 109-435, contains no provisions addressing a payment default. As of the date of this report, November 15, 2013, we have suffered no financial penalties as a result of our inability to make these payments.

The requirement of the P.L. 109-435 to prefund our retiree health benefit obligations, a requirement not imposed upon other federal agencies or private sector businesses, plus the permanent drop in mail volume and changes in the mail mix caused by changes in use of mail by consumers and businesses, have been the consistent trends contributing to our losses since 2009. Without structural change to the business model, we will continue to be negatively impacted by these factors and, absent legislative change, we anticipate continuing losses into the future.

Current projections indicate that we will have a continued low level of liquidity in 2014. It is expected that we will be unable to make the required $5.7 billion retiree health benefits prefunding payment due by September 30, 2014. This cash position will worsen in October 2014, when we are required to make our annual payment of approximately $1.4 billion to the DOL for workers' compensation. A low level of liquidity will continue to exist, absent legislative actions by Congress that have been requested to assist us in returning to a financially stable position.

In the short-term, should circumstances leave us with insufficient cash, we would be required to implement contingency plans to ensure that mail delivery continues. These measures could require that we prioritize payments to employees and suppliers ahead of some payments to the Federal Government, as has been done in the past. Additionally, we continue to seek a refund of the overfunding of FERS as those funds would help alleviate some of our short-term liquidity risks. OPM projected that the FERS overfunding was $0.5 billion at September 30, 2013, the latest actual data available. However, the OIG has determined that if Postal Service specific assumptions were used to estimate the FERS obligation, rather than the government-wide averages currently used, the surplus would be substantially greater than the amount calculated by OPM.

POSTAL ACTIONS TAKEN TO IMPROVE LIQUIDITY

On January 14, 2013, our Board of Governors directed management to accelerate the realignment of Postal Service operations to further reduce costs in order to strengthen our finances, citing the fact that we cannot wait indefinitely for legislation. In January and February, 2013, approximately 22,800 eligible employees represented by the APWU separated from the Postal Service. In addition, the increased utilization of non-career employees, as provided by the new labor agreements, allowed for better alignment of staffing and workload levels, resulting in reduced labor costs.

On February 6, 2013, we announced plans to transition to a new delivery schedule beginning in August 2013, which would include package delivery Monday through Saturday and mail delivery Monday through Friday. We expected to generate cost savings of approximately $2 billion annually, when fully implemented. However, after Congress passed a Continuing Resolution which clearly prohibits such an action, the Board of Governors announced on April 10, 2013, that implementation of the modified delivery schedule would be delayed until legislation changing the 6-day delivery requirement is enacted. The transition to a more cost-effective delivery schedule remains one of the most significant savings opportunities available to us and remains a part of the *2013 Five-Year Business Plan* (Business Plan). We continue to request comprehensive legislation that will enable changes to the business model and allow a transition to a new delivery schedule.

On April 17, 2013, we released our updated comprehensive Business Plan which details the implementation of its targeted program to eliminate nearly $20 billion of annual cost from the business by the year 2017. This plan continues our efforts to aggressively pursue the strategies within our control to increase operational efficiency and to improve our liquidity position. The Business Plan requires a combination of operational realignment, aggressive cost reductions, and comprehensive legislation to reform our current business model. Several key provisions included in the Business Plan, in addition to the modified delivery schedule, are outlined below.

Alignment of Network Size and Cost with Reduced Mail Volumes

Operational initiatives outlined in the Business Plan include the accelerated consolidation of mail processing, retail, and delivery networks in order to better align them with mail volumes, and a reduction in hours at 13,000 Post Offices, accompanied by an expansion in alternate retail access. These extensive operational changes are being executed while we continue to deliver appropriate levels of service to communities throughout America. This realignment of mail processing, retail, and delivery operations is expected to generate nearly $6 billion in annual cost reductions by the year

2016. In addition, as discussed above, the transition to a more cost-effective delivery schedule is one of the most significant savings opportunities in the Business Plan.

Revenue Management

We continue to introduce new service offerings to generate new revenue and to slow the migration of existing revenue streams to electronic alternatives. Expanded use of digital technologies to enhance the mail experience, using connectivity to various websites, social media, and points of purchase, is a focus in enhancing the mail experience. However, legislative action is also required to give us authority to generate new revenue and adapt to changing business conditions because the scope of products and services that we can offer is limited by law.

Implementation of a New Healthcare Program

A vital component of the Business Plan is the requirement that we dramatically reduce our healthcare costs. Our proposed program is intended to provide Postal employees and retirees with equivalent benefits, but at lower cost. This proposal would require full integration with Medicare A, B, and D. It is estimated that the healthcare program could achieve more than $8 billion of projected annual savings by 2016. The Plan would eliminate the need for any additional retiree health benefit prefunding as established in P.L. 109-435, which would save us over $5.6 billion annually through 2016. We are working with our unions to develop a healthcare proposal intended to provide the Postal Service similar financial benefits while staying within the FEHBP.

Business Model Change

As noted above, achieving significant future efficiencies and cost reductions in areas that are under our control will not be enough to return us to a position of financial viability in the long run without comprehensive changes to our business model. The fulfillment of the Business Plan's complete cost savings and debt reduction objective can only be obtained with the enactment of comprehensive legislative reform of our business model. Business model changes requiring legislation include: Sponsorship of our own healthcare program for both employees and retirees, which would eliminate the need for prefunding of retiree health benefits, and obtaining a refund of our over-payment to FERS. Further, Congress needs to direct OPM that our funding obligation for FERS be calculated using postal specific economic assumptions and demographics. Congress must also enact legislation to allow us to implement a 6-day package delivery and a 5-day mail delivery operational schedule.

Pricing Strategy

On September 25, 2013, we proposed two separate price increases for Market Dominant products, an average 1.6% increase based on changes in the Consumer Price Index for all Urban Consumers (CPI-U) and a 4.3% average increase, on top of the 1.6% increase due to extraordinary and exceptional circumstances stemming from the Great Recession that have contributed to dangerously low liquidity and continued financial losses. The 4.3% "exigent" price increase was deemed necessary by the Board of Governors to enable us to maintain a high level of postal services because of the precarious financial condition of the Postal Service and the uncertain path towards postal reform legislation. The proposed pricing change would increase the price of a First-Class Mail single-piece letter from 46 cents to 49 cents. Similar increases would be applied to Standard Mail, Package Services, Periodicals, and extra services. The proposed changes, which, if approved by the PRC, would go into effect on January 26, 2014, are expected to generate $2 billion of additional annualized revenue for the Postal Service.

MITIGATING CIRCUMSTANCES

Our status as an independent establishment of the Executive branch that does not receive tax dollars for our operations presents unique requirements and restrictions, but also potentially mitigates some of the financial risk that would otherwise be associated with a cash shortfall. With revenues of $67 billion, generated almost entirely through the sale of postage, we are at the core of an industry that employs an estimated 8 million Americans. The U.S. economy benefits greatly from the Postal Service, as well as the many businesses that provide the printing and mailing services that support it. Millions of check payments, letters, and packages upon which people depend, are mailed through the Postal Service on a daily basis. Disruption of the mail would cause hardships to the public and to the business and banking sectors and could cause some businesses to shut down. Therefore, it is unlikely that, in the event of a cash shortfall, the Federal Government would allow us to significantly curtail or cease operations.

We continue to inform the Administration, Congress, the PRC, and other stakeholders of the immediate and longer-term financial issues we face and the legislative changes that would help provide financial stability. Given the vital role we play in the U.S. economy, it is hopeful that Congress will enact, and the President will sign, legislation which will mitigate our short-term financial challenges and provide us with the authority to make needed changes to ensure long-term financial stability. However, there can be no assurances that the requests to restructure the PSRHBF prefunding payment schedule, or any other legislative changes, will be made in time to impact 2014, or at all.

CAPITAL INVESTMENTS

Given the current financial and liquidity challenges facing the Postal Service, management implemented a capital commitment plan which was below average historical levels. Capital spending limitations, first initiated in 2009 to conserve cash continued throughout the year. Priority was given to projects: 1) needed for safety and/or health or legal requirements; 2) required to provide service to our customers; and 3) initiatives with a high return on investment and a short payback period.

At the beginning of 2013, there were eleven major projects in progress (i.e., greater than $25 million approved capital), representing $3.1 billion in approved capital funding. During the year, three new projects were approved, which totaled $0.2 billion in additional capital funding. A total of three projects representing $0.8 billion in approved capital funding were completed. The year ended with eleven open projects that amount to $2.5 billion in approved capital.

While the funding for a project is authorized in one year, the commitment or contract to purchase or build may take place over several years. By year-end, approximately $2.0 billion had been committed to these eleven open projects. Actual capital cash outlays will occur over several years. Through the end of 2013, approximately $1.8 billion has been paid for these projects.

New capital commitments in 2013 (including the major projects mentioned above), consisting of building improvements, equipment, and maintenance of infrastructure investments, totaled $0.8 billion.

At the beginning of 2012, there were eleven projects in progress, representing $3.1 billion in approved capital funding. During the year, three new projects were approved, which totaled $0.3 billion in additional capital funding. A total of three projects representing $0.4 billion in approved capital funding were completed. The year ended with eleven major projects in progress representing $3.1 billion in approved capital.

CASH FLOW

Cash and cash equivalents totaled $2,326 million, $2,086 million, and $1,283 million at September 30, 2013, 2012, and 2011, respectively.

The following table provides a summary of our cash flows for the twelve month period ended September 30, 2013, 2012, and 2011.

Cash Flow Statement	As of September 30,		
(Dollars in millions)	2013	2012	2011
Operating activities:			
Net loss	$ (4,977)	$ (15,906)	$ (5,067)
Noncash depreciation and gains on sales	1,848	2,070	2,319
Changes in assets and liabilities	4,064	13,404	3,242
Cash provided by (used in) operating activities	935	(432)	494
Investing activities:			
Change in restricted cash requirements	(79)	(28)	(10)
Capital expenditures, net of proceeds	(509)	(557)	(1,053)
Cash used in investing activities	(588)	(585)	(1,063)
Financing activities:			
Net change in notes payable	-	1,200	1,200
Net change in revolving credit line	-	800	(200)
Other	(107)	(180)	(114)
Cash (used in) provided by financing activities	(107)	1,820	886
Net Increase in Cash and Cash Equivalents	$ 240	$ 803	$ 317

CASH FLOWS FROM OPERATING ACTIVITIES

Net cash provided by operating activities was $935 million in 2013, compared to $432 million used by operations in 2012, a year-to-year increase in cash provided by operations of $1,367 million. Cash provided by operations was driven by increased revenues from standard mail, shipping and packages, and stamp sales. Additional significant non-cash expenses included $1,901 million of depreciation and $5,600 million in PSRHBF expenses which were offset by $1.7 billion in fair value adjustments to workers compensation and a $1.3 billion change in accounting estimate related to deferred revenue – prepaid postage.

Net cash used in operating activities was $432 million in 2012, compared to $494 million provided by operations in 2011, a year-to-year decrease in cash provided by operations of $926 million. A major factor incorporated in the net loss of $15,906 million was the $11,100 million of PSRHBF expenses that were accrued during the year but not paid. Additional significant non-cash expenses included: $2,075 million of depreciation, a $2,425 million increase in the workers' compensation liability, and a $78 million increase in other noncurrent liabilities. A significant use of cash during the year was the $911 million repayment in 2012 of the FERS employer contributions that were withheld from June 2011 through November 2011. Partially offsetting the FERS payment impact on cash flows was an increase in cash received for stamps that have not yet been used, otherwise known as deferred revenue – prepaid postage, which increased by $517 million in 2012. The remaining adjustments from net loss to cash used by operating activities net out to cash provided of $190 million.

Net cash provided by operating activities was $494 million in 2011, compared to $3,292 million used in operations during 2010, a year-to-year increase in cash provided by operations of $3,786 million. The major difference in cash flows was that for 2011, the $5,500 million payment for the PSRHBF contribution initially due in 2011 but changed to be due in 2012. The 2011 loss of $5,067 included: non-cash expenses for depreciation of $2,313 million, a $2,553 increase in the Workers' Compensation liability, and a $520 million increase in other noncurrent liabilities. Impacting cash flow in 2011 was the fact that there were 27 pay dates during the fiscal year versus the normal 26 pay dates for an estimated cash outflow impact of $1,490 million. The 27 pay date impact was partially offset by the $911 million of FERS employer contributions that were expensed in 2011, but not disbursed until 2012. During 2011, $913 million of cash was received, but classified as deferred revenue-prepaid postage. The remaining adjustments from net loss to cash provided by operating activities net out to cash used of $159 million.

CASH FLOWS FROM INVESTING ACTIVITIES

Net cash used by investing activities in 2013 was $588 million, compared to $585 million and $1,063 million in 2012 and 2011, respectively. Purchases of property and equipment in 2013 of $667 million decreased $38 million from the prior year after a $485 million decrease in 2012 from 2011. Proceeds from building sales and the sale of property and equipment totaled $158 million in 2013, compared to $148 million and $137 million in 2012 and 2011, respectively. Changes in restricted cash requirements in 2013 of $79 million increased $51 million from the prior year, after a $18 million increase in 2012 from 2011.

CASH FLOWS FROM FINANCING ACTIVITIES

Net cash used in financing activities was $107 million in 2013. Net cash provided by financing activities was $1.8 billion and $0.9 billion in 2012 and 2011, respectively.

The following table summarizes future cash requirements as of September 30, 2013.

Contractual Obligations	Payments Due by Year				
(Dollars in millions)	Total	Less than 1 Year	1-3 Years	3-5 Years	After 5 Years
Debt [1]	$ 15,000	$ 9,800	$ 300	$ -	$ 4,900
Interest on debt [1]	1,898	180	336	318	1,064
PSHRBF	33,900	22,400	11,500	-	-
Capital lease obligations	565	94	179	143	149
Operating leases	6,680	720	1,264	1,009	3,687
Capital commitments [2]	708	428	209	47	24
Purchase obligations [2]	6,082	741	1,765	1,679	1,897
Workers' compensation [3]	25,283	1,305	2,542	2,109	19,327
Employees' leave [4]	2,097	116	254	270	1,457
	$ 92,213	$ 35,784	$ 18,349	$ 5,575	$ 32,505

(1) For overnight and short-term debt, the table assumes the balance as of period end remains outstanding for all periods presented.

(2) Legally binding obligations to purchase goods or services. Capital commitments pertain to purchases of equipment, building improvements, and vehicles. Purchase obligations generally pertain to items that are expensed when received or amortized over a short period of time. Capital commitments and purchase obligations are not reflected on the Balance Sheet.

(3) Assuming no new cases in future years. This amount represents the undiscounted expected workers' compensation payments. The discounted amount of $17,240 million is reflected in our Balance Sheet as of September 30, 2013.

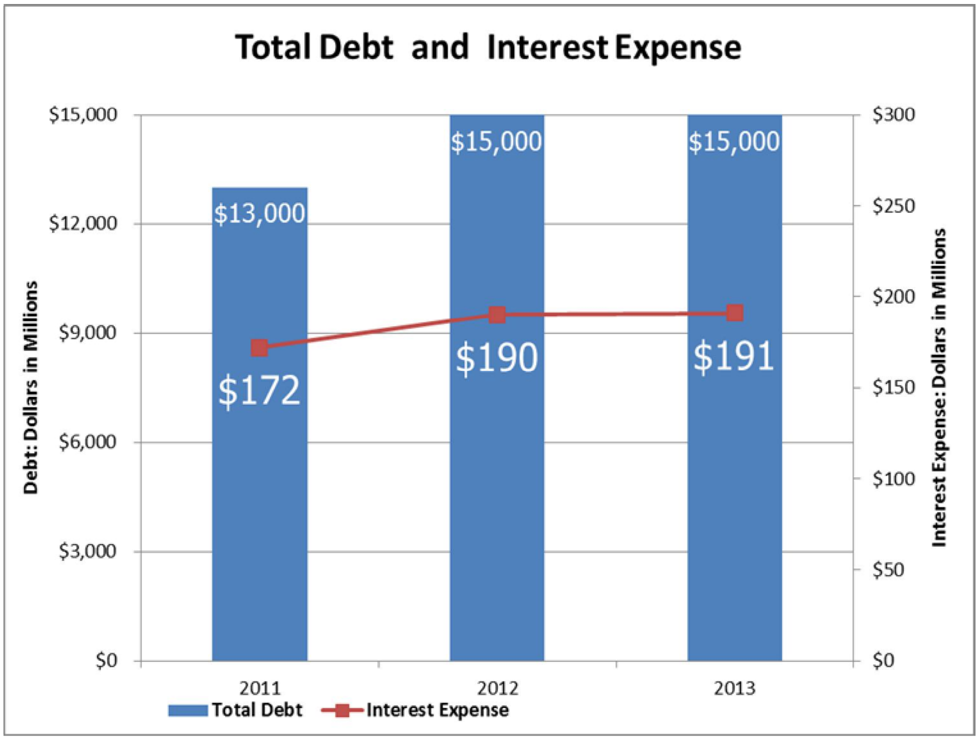
(4) Employees' leave includes both annual and holiday leave.

FINANCING ACTIVITIES

DEBT

As an "independent establishment of the Executive Branch of the Government of the United States," the Postal Service receives no tax dollars for ongoing operations and has not received an appropriation for operational costs since 1982. We fund operations chiefly through cash generated from operations and by borrowing from the Federal Financing Bank (FFB).

The amount borrowed is largely determined by three major factors, the difference between: (1) cash flow from operations, (2) capital cash outlays, which include funds invested for new facilities, new automation equipment, and new services, and (3) the annual increase in debt, which is limited by statute to $3 billion. An additional determinant is our statutory debt ceiling of $15 billion. On September 30, 2013, and September 30, 2012, there was $15 billion in debt outstanding.



INTEREST EXPENSE

In 2013, interest expense was $191 million, which was slightly higher than $190 million in 2012. Net losses for the three years ended September 30, 2013, have resulted in higher debt levels, however in 2012, the maximum debt limit of $15 billion was reached. Although long-term debt carries higher interest rates than prevailing rates for short-term debt, financing a portion of debt at fixed rates decreases our interest rate risk and interest expense volatility now and in future years. At September 30, 2013, $5.2 billion of these long-term obligations remain outstanding. Overall debt levels have not changed in 2013 and 2012, albeit still higher than previous years. However, short-term interest rates remained at historically low levels helping to keep total interest expense relatively low.

In 2012 and 2011, with an increasing amount of debt outstanding throughout the year, interest expense totaled $190 million and $172 million, respectively.

INTEREST AND INVESTMENT INCOME

The majority of our interest and investment income comes from the imputed interest we recognize on the funds owed to us under the *Revenue Forgone Reform Act of 1993*. Under the Act, Congress agreed to reimburse the Postal Service $1,218 million in 42 annual installments of $29 million through 2035 for services performed in prior years. Although Congress has failed to appropriate the funds for these payments in 2012 and 2013, we continue to make these appropriation requests and recognize the imputed interest due on the original amortization schedule. Imputed interest for Revenue Forgone was $23 million, $23 million, and $24 million for the years ended September 30, 2013, 2012, and 2011, respectively. See Note 12, *Revenue Forgone*, in the Notes to the Financial Statements for additional information.

When we determine that available funds exceed current needs, funds are invested with the U.S. Treasury's Bureau of Public Debt in overnight securities issued by the U.S. Treasury. Investment income was $1 million, $2 million, and $4 million for the years ended September 30, 2013, 2012, and 2011, respectively.

LEGAL MATTERS AND CONTINGENT LIABILITIES

An estimated loss contingency is accrued in our financial statements if it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. Assessing contingencies is highly subjective and requires judgments about future events. We regularly review loss contingencies to determine the adequacy of our accruals and related disclosures. The amount of the actual loss may differ significantly from these estimates. In 2013, the material claim outstanding is the following.

McConnell v. Donahoe: On January 14, 2010, the Equal Employment Opportunity Commission's (EEOC) Office of Federal Operations certified a class action case against the Postal Service in a matter captioned McConnell v. Donahoe. The class currently consists of all permanent rehabilitation employees and limited-duty employees who have been subjected to the National Reassessment Process (NRP) from May 5, 2006, to July 1, 2011. We used the NRP to ensure that our records were correct and that employees receiving workers' compensation benefits were placed in jobs consistent with their abilities. The case alleges violations of the Rehabilitation Act of 1973 resulting from the NRP's failure to provide a reasonable accommodation, the NRP's wrongful disclosure of medical information, the creation by the NRP of a hostile work environment, and the NRP's adverse impact on disabled employees. The class is seeking injunctive relief and damages of an uncertain amount. If the plaintiffs were able to prove their allegations in this matter and to establish the damages they assert, then an adverse ruling could have a material impact on us. However, we dispute the claims asserted in this class action case and are vigorously contesting the matter. See Note 7, *Contingent Liabilities*, in the Notes to the Financial Statements for additional information.

FAIR VALUE MEASUREMENTS

In 2013 and 2012, our financial statements contain fair value disclosures required by U.S. GAAP. We did not have any recognized gains as a result of these valuation measurements in these years. All recognized losses have been incorporated into our financial statements, and the unrecognized gains and losses are not considered to have a significant impact upon our operations. See Note 11, *Fair Value Measurement*, in the Notes to the Financial Statements for additional information.

LEGISLATIVE UPDATE

Appropriations and Continuing Resolutions

On October 17, 2013, the President signed into law the *Continuing Appropriations Act, 2014* (P.L. 113-46). The law provides funding for the Federal Government to continue operations, projects, or activities which were conducted in Fiscal Year 2013 through January 15, 2014. The Postal Service's appropriation for free mail for the blind and overseas voters remains $78.2 million. The proposal contained no provisions related to the *Revenue Forgone Reform Act of 1993*, which authorizes the Postal Service to receive $29 million annually through 2035 as reimbursement for services it provided from FY 1991 through FY 1998. The provision requiring six-day delivery frequency remains in effect.

On July 25, 2013, the Senate Appropriations Committee reported S. 1371, (S. Rept. 113-80), the *FY 2014 Financial Services and General Government Appropriations Act, 2014*. On July 17, 2013, the House Appropriations Committee reported H.R. 2786, (H. Rept. 113-172), the *FY 2014 Financial Services Appropriations Act, 2014*. Included in both bills is a funding level of $70.8 million for free mail for the blind and overseas voters. Neither bill provided funding for the $29 million revenue forgone debt repayment owed to the Postal Service. The Postal Service requested $167.5 million, which included past revenue forgone debt repayments that had not been funded in past appropriations bills. A provision requiring six-day delivery of mail remains in the bills.

Report language accompanying the Senate bill calls for a Government Accountability Office (GAO) report on how implementation of the Postal Service's Network Optimization Plan has impacted service standards, particularly in the Western states. Report language accompanying the House bill requests that the Postal Service refrain from selling any historic Post Offices until the U.S. Postal Service Office of Inspector General completes its study of how well the Postal Service complies with the *National Historic Preservation Act* statute.

These bills have been reported out of Committee and await final passage by Congress.

Administration Proposals

PRESIDENT'S FISCAL YEAR 2014 BUDGET PROPOSAL

On April 10, 2013, the President released his Fiscal Year 2014 Budget Proposal, which included several recommendations related to the Postal Service. The President's proposal is one component of the budgeting process; Congress separately devises its own budget proposals for consideration. The President's proposal includes a comprehensive postal reform package that would:

- Require the Office of Personnel Management (OPM) to calculate FERS costs using economic assumptions and demographic factors specific to the Postal Service workforce and to return the FERS surplus.
- Restructure Retiree Health Benefits payments on an accruing cost basis rather than on a fixed cost basis.
- Reduce mail delivery from six days to five days per week starting in June 2013.
- Increase collaboration with state and local governments.
- Permit the Postal Service Governors to enact a modest one-time increase in postage for Market-Dominant services (primarily First-Class Mail and Standard Mail).

The President's budget proposal also includes $70.8 million for free mail for the blind and overseas voters. The proposal contained no provisions related to the *Revenue Forgone Reform Act of 1993*, which authorizes the Postal Service to receive $29 million annually through 2035 as reimbursement for services it provided from FY 1991 through FY 1998.

CONGRESSIONAL POSTAL REFORM PROPOSALS

A number of bills that could affect the Postal Service were introduced in the First Session of the 113th Congress. A detailed description of two major reform bills and their current status follows.

Postal Reform Act of 2013, S. 1486

On August 2, 2013, S. 1486, the *Postal Reform Act of 2013*, was introduced in the Senate. The bill proposes to reform the Postal Service by addressing a number of issues, including: assessments of the Federal Employees' Retirement System (FERS) and the Civil Service Retirement System (CSRS) pension fund liabilities, calculation of any pension fund liabilities using postal-specific economic and demographic assumptions, any FERS pension fund surplus are to be returned to the Postal Service but can only be used for certain purposes, authority to negotiate retirement benefits for new employees, restructuring of payments for Retiree Health Benefits (RHB), and implementation of a Postal Service health benefits plan -- negotiated with the unions -- that could incorporate coordinated Medicare benefits for postal employees and future retirees. The bill also requires arbitrators to consider the financial condition of the Postal Service when rendering decisions.

S. 1486 addresses Postal Service operations in several ways, including: requiring the Postal Service to maintain for two years the existing service standards for First-Class Mail and Periodicals, requiring a two-year moratorium on the closure or consolidation of mail processing facilities, permitting the establishment of a five-day mail delivery schedule after one year, allowing for delivery point modernization, authorizing the Postal Service Governors to establish a system of classes and rates for Market-Dominant products, as well as workshare discounts and Negotiated Service Agreements (NSAs), giving the Postal Service the authority to introduce new non-postal and governmental services, and permitting the Postal Service to ship beer, wine, and distilled spirits.

S. 1486 would make changes to the current governance structure, including: modifying the make-up of the Board of Governors, establishing an Advisory Committee to develop and oversee implementation of strategies to ensure the Postal Service's long-term financial solvency, appointment of a Chief Innovation Officer, and creating a plan to reduce the total number of area and district offices. The bill also reforms programs applicable to the entire Federal Government, including the Federal Employees' Compensation Act (FECA), and includes provisions related to federal property management, including co-location with other federal agencies and the disposal of real property. S. 1486 was referred to the Senate Homeland Security and Governmental Affairs Committee.

Postal Reform Act of 2013, H.R. 2748

On July 19, 2013, H.R. 2748, the *Postal Reform Act of 2013*, was introduced in the House. H.R. 2748 would allow the Postal Service to establish a five-day mail delivery schedule while temporarily mandating six-day package delivery for domestic competitive products. It would allow the Postal Service to forgo past-due payments to prefund retiree health benefits and would eliminate the FY 2013 and FY 2014 payments. Starting in 2015, required payments to prefund retiree health benefits would be based on an actuarial calculation designed to achieve full funding in 2056, while current retiree health benefits premiums would be paid out of the Postal Service Retiree Health Benefits Fund (PSRHBF). H.R. 2748 would replace the current Board of Governors with a panel of five full-time executives. Once the Postal Service met certain specified financial requirements, the panel would be dissolved and replaced with a smaller Board of Governors that would initially be comprised of the panel members.

H.R. 2748 would begin to phase out door delivery of mail in favor of curbside and clusterbox delivery, except in cases where eliminating door delivery is infeasible, where customers pay for continued door delivery, or where customers have a significant hardship requiring that they receive door delivery. The bill would also require above-CPI increases in the prices of postal products for which costs exceed revenues and would not permit political committees to use the non-profit Standard Mail rate. The bill would require postal workers to pay the same premiums paid by other federal workers for health and life insurance benefits and seeks to clarify the compensation parity currently required between Postal and private sector workers. H.R. 2748 would allow the Postal Service to offer state and local government services, such as, the sale of fishing licenses. The bill seeks to create a mechanism to allow the FERS surplus to be transferred to the PSRHBF to the extent that the surplus exceeds any unfunded liability in CSRS and would allow the use of Postal Service-specific economic assumptions to calculate liabilities and annual payments for both the FERS and the CSRS pension systems. It also specifies that, in the future, postal employees would be subject to the same Reduction-in-Force (RIF) authority as the rest of the federal workforce.

H.R. 2748 would limit the closure of rural Post Offices and would require the Postal Service to consider broadband penetration, cellular phone service, and the distance to the closest alternate access point when determining whether to close a Post Office. It would create a Chief Innovation Officer position responsible for identifying and growing new postal and authorized non-postal products and would also raise the current revenue limit on experimental product market tests.

The House Oversight and Government Reform Committee amended and passed the bill by a margin of 22-17 at its July 24, 2013, meeting. The bill is pending consideration by the full House.

BOARD OF GOVERNORS NOMINATIONS

On June 21, 2013, President Obama announced the nomination of James C. Miller, III to serve as a Governor on the U.S. Postal Service Board of Governors for a term expiring December 8, 2017. This nomination brought to three the total number of Board of Governors' nominations pending before the Senate; the other nominees are Stephen Crawford, nominated on March 12, 2013, for a term expiring December 8, 2015, and David Michael Bennett, nominated on April 23, 2013, for a term expiring December 8, 2018.

ITEM 7A — QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

MARKET RISK DISCLOSURE

In the normal course of business, we are exposed to market risk from changes in commodity prices, certain foreign currency exchange rate fluctuations, and interest rates. We do not use derivative financial instruments to manage market risks. Additionally, we do not purchase or hold derivative financial instruments for speculative purposes.

FUEL COST RISK

As of September 30, 2013, we estimate that a 1% increase in fuel and natural gas costs would result in a $28 million increase in expense. We did not use derivative commodity instruments to manage the risk of changes in energy prices during the periods covered by this report.

FOREIGN EXCHANGE RISK

We are exposed to market risk arising from changes in currency exchange rates as a result of operations outside the United States. Currency exchange rate fluctuations may favorably or unfavorably impact reported earnings.

We estimate that a 1% increase or decrease in foreign exchange rates would have an insignificant impact on our financial statement due to the small percentage of our receipts and disbursements denominated in foreign currencies.

INTEREST RATE RISK

We have not used derivative financial instruments to manage risk related to interest rate fluctuations for debt instruments. However, we did issue long-term, fixed-rate debt in 2009, and again in 2011, that will mitigate exposure to rising interest rates in future years. We estimate that a 1.0% increase in interest rates would result in a $57 million increase in interest expense.

In addition, the valuation of our workers' compensation liability is highly sensitive to changes in discount (interest) rates. An increase of 1% in the interest rates assumptions would decrease the September 30, 2013 liability and 2013 expense by approximately $1.7 billion. A decrease of 1% would increase the September 30, 2013 liability and 2013 expense by approximately $2.1 billion.

LABOR CONTRACTS

As discussed in Item 1A, Risk Factors, the contracts with our four largest unions historically have included provisions granting COLAs linked to changes in the CPI-W.

On January 10, 2013, a final award was rendered in the arbitration case between USPS and the NALC, resulting in a new NALC contract that became effective on November 21, 2011, and extends through May 20, 2016. The new NALC contract has no retroactive payments, includes general wage increases in 2014 through 2016, stipulates that COLA for 2013 is deferred until 2014, and reduces the employer contribution to Health Benefits.

On February 15, 2013, a final award was rendered in the arbitration case between USPS and the NPMHU, resulting in a new NPMHU contract became effective on November 21, 2011, and extends through May 20, 2016. The new NPMHU contract has no retroactive payments under the agreement, includes general wage increases in 2014 through 2016, stipulates that COLA for 2013 is deferred until 2014, and reduces the employer contribution to Health Benefits.

The current contract with the APWU became effective May 23, 2011, and extends through May 20, 2015. On July 3, 2012, a final award was rendered in the arbitration case between USPS and the NRLCA, resulting in a new NRLCA contract that extends through May 20, 2015.

ITEM 8 — FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Our audited Statements of Operations, Balance Sheets, Statements of Changes in Net Deficiency, and Statements of Cash Flows are included in Item 15 of this report.

ITEM 9 — CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A — CONTROLS AND PROCEDURES

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in quarterly and annual reports is recorded, processed, summarized, and reported within the time frames specified by P.L. 109-435, and that this information is accumulated and communicated to management, including the Postmaster General and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

We carried out an evaluation, under the supervision and with the participation of management, including the Postmaster General and Chief Financial Officer, of the effectiveness of the design and operation of disclosure controls and procedures as of September 30, 2013. Based upon and as of the date of the evaluation, the Postmaster General and Chief Financial Officer concluded that our disclosure controls and procedures were effective.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There were no changes in the Postal Service's internal controls over financial reporting during the quarter ended September 30, 2013, that have materially affected, or are reasonably likely to materially affect, the Postal Service's internal control over financial reporting.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Our management is responsible for establishing and maintaining adequate controls over financial reporting. Internal control over financial reporting is a process to provide reasonable assurance regarding the reliability of our financial reporting for external purposes in accordance with accounting principles generally accepted in the United States of America. Internal control over financial reporting includes maintaining records that, in reasonable detail, accurately and fairly reflect our transactions, providing reasonable assurance that transactions are recorded as necessary for the preparation of our financial statements, providing reasonable assurance that receipts and expenditures of assets are made in accordance with management authorization and providing reasonable assurance that unauthorized acquisition, use, or disposition of assets that could have a material effect on our financial statements would be prevented or detected on a timely basis. Because of its inherent limitations, internal control over financial reporting is not intended to provide absolute assurance that a misstatement of our financial statements would be prevented or detected.

Management conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management concluded that our internal control over financial reporting was effective as of September 30, 2013.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The effectiveness of our internal control over financial reporting as of September 30, 2013, has been audited by Ernst & Young LLP, the independent registered public accounting firm who also audited our financial statements included in this Annual Report on Form 10-K. Ernst & Young LLP's report on our internal control over financial reporting is included in this Annual Report on Form 10-K on page 73.

ITEM 9B — OTHER INFORMATION

None.

Part III

ITEM 10 — DIRECTORS, EXECUTIVE OFFICERS, AND CORPORATE GOVERNANCE

THE POSTAL SERVICE IS GOVERNED BY AN ELEVEN MEMBER BOARD OF GOVERNORS.

The Board is composed of nine Governors appointed by the President of the United States with the advice and consent of the United States Senate, plus the Postmaster General and the Deputy Postmaster General. The five currently appointed Governors are:

Name, Age, and Term of Office	**Positions and Experience**
Mickey D. Barnett Chairman of the Board of Governors, Age 62	Chairman of the Board of Governors since December 2012. Vice Chairman of the Board of Governors, 2011. Member of the Audit and Finance Committee. Attorney in Albuquerque, New Mexico. Former member, New Mexico State Senate. Former member, New Mexico Supreme Court and the Court of Appeals nominating commission. Former Legislative Assistant to Senator Pete Domenici of New Mexico.
Governor since August 2006. Term expiring December 2013.	
James H. Bilbray, Vice Chairman of the Board of Governors, Age 75	Vice Chairman of the Board of Governors since December 2012. Member of the Governance, Regulatory and Strategic Planning Committee and member, Compensation and Management Resources Committee. Attorney at the law firm of Kaempfer Crowell Renshaw Gronauer & Fiorentino in Las Vegas, Nevada. Former member, U.S. House of Representatives from Nevada. Former member, Nevada State Senate. Former Deputy District Attorney in Clark County, Nevada. Member of 2005 Base Closure and Realignment Commission.
Governor since August 2006. Term expiring December 2015.	
Louis J. Giuliano, Governor Age 67	Past Chairman of the Board of Governors, 2010 and 2011. Vice Chairman of the Board of Governors, 2009. Chairman, Audit and Finance Committee and Operations Subcommittee, and member, Compensation and Management Resources Committee. Former Chairman of Board of Directors, President and Chief Executive Officer of ITT Corp. Senior Advisor at the Carlyle Group, and active member of the CEO Forum and the Advisory Board for the Princeton University Faith and Work Initiative.
Governor since November 2004. Term expiring December 2014.	

Name, Age, and Term of Office	Positions and Experience
Dennis J. Toner, Governor, Age 62	Chairman of the Governance, Regulatory and Strategic Planning Committee. Member of the Audit and Finance Committee, and member, Operations Subcommittee. Founder and principal since 2006 of Horizon Advisors, a private consulting business which provides guidance and strategic planning to private clients and non-profit organizations and maintains a professional resource network intended to advise and promote dialogue among the public, private, and non-profit sectors. Deputy Chief of Staff to then-Senator and now-Vice President Joseph Biden, Jr., 1995 to 2005.
Governor since September 2010. Term expired December 2012. Currently serving a holdover year.	
Ellen C. Williams, Governor, Age 56	Chairman of the Compensation and Management Resources Committee and a member of the Governance, Regulatory and Strategic Planning Committee. Partner in MML&K, a government relations firm with offices in Frankfort, KY and Washington, DC. Former owner and CEO of Capital Network. Former Vice Chairman of the Kentucky Public Service Commission from 2004 to 2005. Former Commissioner of the Governor's Office for Local Development in Kentucky from 2005 to 2006. Former Chairman of the Republican Party of Kentucky from 1999 to 2004. Former executive assistant to Senator Bob Kasten.
Governor since August 2006. Term expiring December 2014.	

THE POSTAL SERVICE BOARD OF GOVERNORS HAS AN AUDIT AND FINANCE COMMITTEE.

The Audit and Finance Committee has three Governors, as follows: Governor Giuliano, Chairman, Governor Barnett, and Governor Toner. The Board of Governors has determined that Governor Giuliano qualifies as an audit committee financial expert as defined by the rules of the SEC. All Audit and Finance Committee members are independent as defined by the rules of the SEC.

THE POSTAL SERVICE BOARD OF GOVERNORS HAS A COMPENSATION AND MANAGEMENT RESOURCES COMMITTEE.

The Compensation and Management Resources Committee, composed of Governor Williams, Chairman, Governor Giuliano, and Governor Bilbray during fiscal year 2013, was responsible for making recommendations to the Governors with respect to compensation decisions.

THE POSTAL SERVICE HAS EIGHT EXECUTIVE OFFICERS AS OF SEPTEMBER 30, 2013. THESE EXECUTIVE OFFICERS WERE:

Name and Age	Positions and Experience
Patrick R. Donahoe Age 58	73rd Postmaster General and Chief Executive Officer since December 2010 and a member of the Board of Governors since April 2005. Deputy Postmaster General and Chief Operating Officer from April 2005 until December 2010. Chief Operating Officer and Executive Vice President during the years 2001 to 2005. Senior Vice President, Operations from February 2001 to September 2001.
Ronald A. Stroman Age 61	20th Deputy Postmaster General and member of the Board of Governors of the United States Postal Service since April 2, 2011. Served as Staff Director, Committee on Oversight and Government Relations at the U.S. House of Representatives, from 2009 to April, 2011. Prior to this, served as Managing Director, Office of Opportunity and Inclusiveness, U.S. General Accounting Office, from 2001 to 2009.
Megan Brennan Age 51	Chief Operating Officer and Executive Vice President since December 18, 2010. Previously, Vice President, Eastern Area Operations from December, 2006 to December, 2010, and Vice President, Northeast Area Operations from April, 2005 to December, 2006.
Ellis Burgoyne Age 55	Chief Information Officer and Executive Vice President from December 2010 (except for a brief period when he was on medical leave from June 20 through September 30, 2012) through September 2013. Prior to that, served as Vice President, Area Operations for the Southwest Area from 2006 until 2010. Prior to that, served as Vice President, Delivery and Retail commencing in 2005 until 2006.
Joseph Corbett Age 54	Chief Financial Officer and Executive Vice President since 2009 (except for a brief period from June 20 through September 30, 2012 when he served as Acting Chief Information Officer and Executive Vice President). Founder and Managing Director of FinSol, LLC, a finance and accounting CFO services firm from 2005 to 2009. Consultant, Chief Financial Officer and Executive Vice President of BearingPoint, Inc., a U.S. government contracting, consulting, and systems integration company, from 2004 to 2005. Executive Vice President and Chief Financial Officer of Intelsat, Ltd., from 1998 to 2004 and Intelsat Controller from 1995 to 1998.
Nagisa Manabe Age 50	Chief Marketing and Sales Officer and Executive Vice President since May 2012. Prior to joining the Postal Service, Ms. Manabe was Vice President of New Growth Platforms at the Coca Cola Company from September 2011 to May 2012. Before that, she was the vice president of Marketing for Diageo Guinness USA, the beer and malt beverage division of Diageo, a leading worldwide spirits, wine, and beer company from August 2004 to April 2011.
Thomas Marshall Age 51	General Counsel and Executive Vice President since May 2013. Previously, Deputy General Counsel from March 2009 to May 2013. Prior to that, Managing Counsel, Civil Practice, from February 2004 to March 2009.
Jeffrey Williamson Age 38	Chief Human Resources Officer and Executive Vice President since March 2013. Vice President, Pricing from June 2012 to March 2013. Postal Service MIT Sloan Fellow Representative from May 2011 to June 2012. Manager, Performance and Field Operations from September 2009 to May 2011. Prior to that, Manager, Network Development and Support from October 2006 to September 2009.

CODE OF ETHICS

All Postal Service employees are required to comply with the Standards of Ethical Conduct for Employees of the Executive Branch ("Standards"). The Standards are published in the Code of Federal Regulations (CFR) at 5 CFR Part 2635 and cover prohibitions and restrictions on the acceptance of gifts, conflicting financial interests, the obligation of all employees to perform their duties impartially, restrictions on the misuse of government positions, restrictions on certain outside activities, and other related ethical obligations. Postal Service employees are also covered by a set of additional restrictions that apply only to the employees of the Postal Service. These supplemental standards can be found at 5 CFR. Part 7001 and focus on limitations on outside employment and outside business activities that could give rise to a conflict with their official duties. The Standards of Conduct and the Supplemental Standards contain many examples to help employees identify and resolve ethical issues. New employees receive ethics training at their orientation, and ethics officials provide ethics training throughout the year as required by law and as otherwise deemed appropriate. To ensure that all of our employees can receive timely and accurate ethics advice, we have established a dedicated ethics telephone helpline and an email address that is managed by ethics specialists.

Certain high level employees are also subject to the Senior Financial Managers' Code of Ethics. This Code of Ethics can be found on our website at: *http://about.usps.com/who-we-are/financials/senior-financial-managers-code-of-ethics-2010.pdf*.

Part III

ITEM 11 — EXECUTIVE COMPENSATION

COMPENSATION DISCUSSION AND ANALYSIS

ROLE OF THE BOARD OF GOVERNORS AND STATUTORY COMPENSATION AND BENEFITS REQUIREMENTS AND LIMITATIONS

The Board of Governors of the Postal Service establishes executive officer compensation and benefits, subject to the requirements and limitations of federal law. The Board has delegated to its Compensation and Management Resources Committee ("Compensation Committee") authority for initial review of management proposals related to compensation and benefits for executive officers. The Compensation Committee, which meets several times throughout the year, is composed solely of presidentially-appointed, Senate-confirmed Governors who are independent of postal management. The Compensation Committee makes recommendations to the full Board for their review and approval.

Federal law governing the Postal Service, set forth in Title 39 of the United States Code, provides that compensation and benefits for all officers in the Postal Service shall be comparable to the compensation and benefits paid for comparable levels of work in the private sector of the economy. The Postal Service is the second largest civilian employer in the nation, with approximately 618,000 career and non-career employees as of the end of fiscal year 2013. The Postal Service operates nearly 212,000 motor vehicles and more than 31,000 retail units. In 2013, the Postal Service delivered 160 billion pieces of mail, almost half of the world's mail, and generated approximately $67 billion in revenue. In 2013, the Postal Service ranked 140th in Fortune Magazine's listing of Fortune Global 500 Companies. By way of comparison, two of our largest competitors ranked 179th and 245th on this list. If the Postal Service were listed on the Fortune 500 annual ranking of America's largest corporations, it would be ranked 42nd. The same two of our largest competitors are ranked 53rd and 63rd on that list.

Even as the economy continues to be challenged, comparably sized companies typically provide their top executives with annual salaries well in excess of $1 million and total compensation and benefits valued at several million dollars. These compensation packages typically consist of annual and long-term performance incentives, including a combination of cash payments and stock options and a number of benefits and perquisites.

Although the law governing the Postal Service provides that executives and others should be compensated at a level comparable to the private sector, the law does not afford the Governors the tools to achieve a standard of compensation comparable to the private sector. Compensation for executive officers of the Postal Service remains significantly below that of similarly-situated senior executives in the private sector. Postal law imposes three different caps on compensation for postal employees. The first cap provides that no officer or employee may be paid compensation "at a rate in excess of the rate for level I of the Executive Schedule under section 5312 of title 5" of the United States Code. 39 U.S.C. § 1003(a). As the upper limit on federal salaries has been frozen for four years, this compensation cap has been set at $199,700 for calendar years 2010 through 2013.

With the approval of the Board the Postal Service may develop a program to award a bonus or other reward in excess of the compensation cap discussed above, as long as this does not cause the total compensation paid to the officer in a year to "exceed the total annual compensation payable to the Vice President [of the United States] under [3 U.S.C. § 104] as of the end of the calendar year in which the bonus or award is paid." 39 U.S.C. § 3686(a)-(b). As the Vice President's compensation has been frozen for four years, this total compensation cap was $230,700 for calendar years 2010 through 2013. The Board may approve a program allowing for bonuses or other rewards if it determines, for the annual appraisal period involved, that the performance appraisal system for affected employees makes meaningful distinctions based on relative performance.

In addition, the Board may allow up to 12 officers or employees of the Postal Service in critical senior executive or equivalent positions to be paid total annual compensation up to "120 percent of the total annual compensation payable to the Vice President [of the United States] under [3 U.S.C. § 104] as of the end of the calendar year in which such payment is received." 39 U.S.C. § 3686(c). Based on the Vice President's salary for calendar years 2010 through 2013, this compensation cap was $276,840 for those years.

By law, postal employees, including executive officers, are entitled to participate in either the Civil Service Retirement System or Federal Employees Retirement System, depending on when their federal employment began. These retirement systems are described later in this compensation discussion and analysis. In addition, in order to remain competitive with comparable employment in private industry and other parts of the Federal Government, postal policy also authorizes certain additional benefits for all officers of the Postal Service, including executive officers. These include participation in the Federal Employees Health Benefits plan, paid life insurance, a periodic physical examination and parking. Other than changes required by law, the Board must authorize any increases to benefits for officers.

COMPENSATION PHILOSOPHY AND OBJECTIVES

The Board recognizes that there is a significant disconnect between the comparability requirement and the compensation caps in the law governing the Postal Service and that the various compensation caps do not enable the Board to provide compensation and benefits for executive officers that are fully comparable to the private sector. This is especially true given the Postal Service's current financial challenges. The Board also recognizes that many of the compensation and benefit tools available in the private sector, such as equity ownership, are not available to the Postal Service, given its status as part of the Federal Government. These limitations make it difficult for the Postal Service to compete in the marketplace for executive officers and to retain current executive officers.

To attempt to achieve some level of comparability within the confines of the law, the Board has designed a compensation system intended to balance an executive's annual salary with the ability to earn additional compensation by meeting performance goals and objectives; a portion of this compensation might need to be deferred because of the compensation caps. Since 2008, the compensation system has not functioned as originally intended, in that significant performance-based incentives have not been available to the officers of the Postal Service since then. FY2013 was the sixth consecutive year that compensation for officers has been impacted by a freeze in salary and/or a non-payment of performance lump sums, as listed more specifically below. By comparison, federal employees only experienced any pay freeze from 2011 through 2013. Furthermore the federal employees pay freeze applied only to cost-of-living adjustments (COLA), and not to longevity (step-increase) raises or performance awards.

History of USPS Officer Pay Freezes:

Year	Description
2013	• Base salaries frozen • No performance lump sums awarded
2012	• Base salaries frozen • No performance lump sums awarded
2011	• Salary ranges frozen • Base salaries frozen • No performance lump sums awarded
2010	• Salary ranges frozen • Base salaries frozen
2009	• No performance lump sums awarded
2008	• Base salaries frozen

Note: USPS compensation does not include any COLA's

For the past six years, the officer compensation system has not worked as designed because the Postal Service has faced significant financial challenges caused in part by the ongoing decline of First-Class Mail, the economy, and problems with its business model. The Postal Service has taken significant steps, described elsewhere in this report, to reduce costs and generate revenue. However, it has sought and continues to need comprehensive legislative change to have much greater flexibility to reduce costs, generate new revenue and return to financial stability. The ongoing financial challenges facing the Postal Service continued to influence significantly the decisions on compensation for fiscal year 2013.

Within the confines of its legislative authority and the financial constraints confronting the Postal Service, the Board's philosophy is that:

- There should be a strong connection between individual executive compensation and the Postal Service's performance on a number of dimensions, including service, net income and productivity.
- Compensation and benefits should be designed to attract and retain top organizational contributors to ensure the Postal Service has the caliber of executives who will enable it to operate at the highest levels of performance and productivity.
- Lump sum incentives should be set to motivate executives to improve performance continuously on a long-term basis and to perform above the annually-established goals and objectives. If individual performance exceeds the goals and objectives set for the year, the employee should receive additional compensation. Likewise, if overall performance falls below the annual goals and objectives, the individual should be paid less.

- A significant amount of the executive's compensation should be at risk and the "at-risk" amount should increase as the executive's level of responsibility increases.
- Innovation, effectiveness as an agent for change, the ability to balance day-to-day priorities and long-term strategies, and organizational value as defined by the achievement of key corporate goals and objectives should be rewarded.
- Executive compensation should be fair and equitable internally, recognizing the width and breadth of the responsibilities of the Postal Service's executives.
- Executive success is defined by a number of factors, including financial returns, the quality of service the Postal Service provides, the results achieved by the executive's actions to enhance the organization's efficiency and overcome challenges and whether an executive met established individual goals.

THE COMPENSATION PROGRAM

In 2007, with the assistance of an independent consulting firm specializing in executive compensation, the Compensation Committee recommended and the Board approved a salary band for the Postmaster General to be set at the legislative salary cap. In doing so, the Board's objectives were to design a compensation program that optimized the legislative flexibility granted by the Postal Act of 2006, reduced internal pay compression, improved external marketplace competitiveness and honored legislative constraints and existing pay ranges. For the other executive officers, the Board set pay bands based on salary relationships of comparable executive officers in the comparator external market. In general, the Board has maintained these types of pay band relationships since 2007.

When the Governors appointed the current Postmaster General, they set his salary at the legislative salary cap. Given the Postal Service's significant financial challenges when he assumed office, the current Postmaster General asked the Governors not to award him any additional compensation, beyond salary and the general types of benefits provided to postal executives. The Governors agreed.

Over the years, the Governors have authorized the Postmaster General to establish salaries for the other executive officers, within the confines of the salary ranges established by the Governors. For calendar year 2013, after reviewing recommendations from the Postmaster General and the Compensation Committee and in light of the Postal Service's financial constraints, the Governors increased the ranges of officer salaries, but did not increase officers' salary.

In 2013, the Postal Service continued to employ a national performance assessment program ("NPA") to set annual performance goals and metrics that vary among executive officers and are weighted to reflect appropriately the degree to which an executive is able to influence the overall performance of the Postal Service. Annual NPA metrics and targets generally take into consideration the Postal Service's performance during the prior year and particular challenges the Postal Service expects to face during the upcoming year. The NPA places emphasis on objective, measurable performance indicators. The Governors also set individual metrics and targets for the Postmaster General and Deputy Postmaster General and authorize the Postmaster General to establish individual metrics and targets for other officers.

As described above, the officer compensation system has not functioned as designed for the past six years.

The officer compensation system is intended to operate as follows: The Board establishes annual Pay-for-Performance (PFP) incentives to provide opportunities for the Postmaster General and the Deputy Postmaster General to earn enhanced compensation, directly tied to the level of their performance. The Postmaster General establishes annual PFP incentives for other officers, to provide them opportunities to earn increased compensation, based upon their performance. Incentive payouts are not to be made for a particular goal if the Postal Service or the individual fails to meet minimum acceptable performance standards. The payment of PFP incentives may sometimes be deferred for future payment where required due to the compensation caps.

The Postal Service's economic challenges have prevented the officer compensation system from functioning properly for an extended period. The Governors believe that this situation must be remedied in the near term to prevent the erosion of performance and service. The Governors are concerned that if this situation persists much longer, it will erode the Postal Service's ability to retain highly-qualified individuals as officers and to recruit the best qualified individuals from outside the Postal Service, if external hiring is deemed to be the best solution to fill critical officer vacancies. Additionally, the Postal Service's financial constraints, which largely are the products of structural defects that only Congress can remedy, have prevented the Postal Service from fully complying with the statutory mandate that its officers be paid in a manner comparable with their private sector counterparts.

The Postal Service has continued to use the NPA process to measure performance during fiscal year 2013 even though no associated compensation has been approved. NPA performance goals and rewards fall into several categories. These include areas that an officer may directly influence, such as service, efficiency, employee satisfaction, and productivity, as well as those that are more susceptible to being affected by general economic conditions, such as revenue generation.

For each goal, the Postmaster General establishes indicators identifying the type of performance that will enable the Postal Service to achieve or surpass the goal. These performance indicators are aligned at the corporate, functional, and individual levels and are weighted. The higher an individual's position is in the organization, the more his or her PFP goals will be tied to overall corporate performance. The executive officers' goals are aligned with national performance goals and linked to the overall success of the Postal Service.

Once the goals and indicators are established, executive officers are advised as to what the Postal Service expects of them in terms of performance during the year, how their performance will impact the entire Postal Service, and in years when performance incentives are authorized, the potential level of performance-based incentives they can expect depending on the Postal Service's and their individual performance. Under this program, an individual executive officer can receive a rating of Non-Contributor, Contributor, High Contributor or Exceptional Contributor, with a numerical rating within each category, depending on how the Postal Service performs on the national indicators and the individual's performance, as determined by the Postmaster General. As shown in the chart below, a rating of Non-Contributor would result from an overall numerical rating of 1 to 3. A rating of Contributor would result from a numerical score of 4 to 9. A rating of High Contributor would result from a score of 10 to 12 and a rating of Exceptional Contributor would result from a score of 13 to 15.

Overall Performance Rating

Adjective Rating	Number rating
Exceptional Contributor (EC)	13, 14, 15
High Contributor (HC)	10, 11, 12
Contributor (C)	4 to 9
Non Contributor (NC)	1, 2, 3

The officer compensation system has not functioned as designed for the past six years, due to the Postal Service's economic challenges. The system is supposed to operate as follows: An individual executive officer's performance rating would make the officer eligible for an increase to base salary, as well as for a performance-based lump sum payment. Due to statutory cap limitations, increases to the maximum of the salary range for executive officers would generally follow the percentage increase to the Executive Schedule for any given year. Any salary increases for executive officers are limited by these maximums and are solely performance based, as determined by the Postmaster General. Lump sum incentive payments would be tied to the Postmaster General's rating of the executive officer's performance and multiplied by a range of 1.33% to 2.50%, based on the degree to which the individual has achieved previously set individual goals and metrics. The Postmaster General's discretion on PFP incentives for executive officers in a given year is limited by the Postal Service's overall performance on NPA goals and metrics. Generally, officer performance scores must average to the Postal Service's overall NPA performance score for the fiscal year.

Salary increases, if any, are determined after the end of the fiscal year, and any new salaries become effective for the following calendar year. In making compensation decisions for fiscal year 2013, the Governors noted that management achieved very significant accomplishments in addressing the many challenges the Postal Service faced in the fiscal year. Despite a significant continuing decline in First-Class Mail volumes over the past several years, management continued to take aggressive actions within its control to reduce costs, provide excellent service and secure revenue. Despite declining First-Class Mail volume, package volume increased during fiscal year 2013. Management improved total factor productivity by reducing the workforce, as well as through a number of other process improvement efforts. In addition to maintaining high levels of service, management also maintained employee satisfaction, introduced a number of new products and services, increased customer access and offered mailers pricing incentives to help stem the volume decline. Management continued to streamline operations, closing a number of facilities and beginning implementation of consolidations and other steps to optimize network and retail operations. The Governors also noted that the Postal Service received an unqualified opinion from its external auditors as to the effectiveness of internal controls. Finally, management also took significant actions to pursue legislative reform in areas key to the Postal Service's ability to provide universal service in the future.

Despite the many significant accomplishments of postal management during fiscal year 2013, the Governors based their decisions on compensation on the fact that the Postal Service continues to face significant financial challenges. While these financial challenges result in part from the decline in First-Class mail and the economy, the Governors noted that comprehensive legislative change is needed to enable the Postal Service to return to financial stability. The absence of legislative change has had, and will continue to have, a significant negative impact on Postal Service finances. Given the

Postal Service's financial challenges, the Governors have not approved salary increases for calendar year 2014. For the same reason, the Postmaster General asked the Governors not to award him a performance incentive for fiscal year 2013. The Governors agreed. Likewise, the Postmaster General, with the approval of the Governors, did not award performance incentives for fiscal year 2013 for the other named executive officers.

Components of the executive officer compensation and benefits program are further outlined below.

BASE SALARY

Base salaries provide a level of financial security that is appropriate for the executive's position within the Postal Service. Within the confines of law and the Postal Service's difficult financial condition, base salaries are to be scaled within pay ranges designed to be competitive with the market median. As discussed above, maximum payouts in a given year are set by federal law. Executive officer salaries are reviewed at least annually and adjusted, as appropriate and when permitted by financial constraints, to reflect individual performance, range of responsibilities, value and contribution to the organization, and experience. However, as discussed above, officer salaries have been frozen for five out of the last six years.

ANNUAL INCENTIVE

Annual incentives serve as a mechanism for adjusting total compensation levels commensurate with the attainment of planned results, thereby ensuring affordability and appropriate return to the Postal Service. As discussed above, the Postal Service uses the NPA program to set annual corporate performance goals and metrics. The Governors set the goals and indicators for the Postmaster General and the Deputy Postmaster General, and the Postmaster General establishes goals and indicators for the other executive officers. The Postmaster General's and the Deputy Postmaster General's performance is determined based on the degree to which they have achieved the previously set goals and metrics. Likewise, executive officers' individual performance ratings are determined by the Postmaster General based on the degree to which the individual has achieved the previously set individual goals and metrics. As discussed above, performance incentives will not be paid for fiscal year 2013 due to the Postal Service's difficult financial condition.

OTHER COMPENSATION INCENTIVES

Executive officers are also eligible for performance awards for specific activities that reflect a high degree of leadership. Only a small number of these individual awards are given out in a typical year. Fiscal year 2013 was the sixth consecutive year that compensation for officers and executives was in some way affected by a freeze. In addition, executive officers are eligible for retention and recruitment incentives designed to attract and retain highly talented and marketable individuals in key postal positions. The payment of some of these awards may be deferred, in whole or in part, due to the Postal Service's compensation limits.

RETIREMENT ANNUITIES

Officers are covered either by the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). Both systems have a defined benefit component and a defined contribution component. CSRS and FERS service is creditable for Medicare coverage. FERS service is creditable for Social Security.

CSRS Defined Benefit: The CSRS Basic Benefit annuity is a percentage of the high-3 salary multiplied by years of service. The percentage is 1.5% for the first 5 years of service, plus 1.75% from 5 years to 10 years of service and 2% for all years of service thereafter. Optional retirement thresholds are age 55 with 30 years of service, age 60 with 20 years of service, and age 62 with 5 years of service, with a requirement of completing at least 5 years of creditable civilian service. The annuity is fully indexed to the Consumer Price Index (CPI). Disability, early retirement, deferred and survivor benefits are available.

FERS Defined Benefit: The FERS Basic Benefit annuity is 1 percent of high-3 salary per year of service, or 1.1 percent for retirement at age 62 with at least 20 years of service. Optional retirement thresholds are the Minimum Retirement Age (MRA is 55 to 57 depending on year of birth) with 30 years of service, age 60 with 20 years of service, age 62 with 5 years of service, or MRA with 10 years of service (at a reduced benefit), with a requirement of completing at least 5 years of creditable civilian service. Employees who retire at MRA with 30 years of service, or at age 60 with 20 years of service, receive a retirement supplement approximating the value of Social Security benefits attributable to federal service; this benefit is paid until age 62. Beginning at age 62, the annuity is indexed to CPI, fully when the CPI increase is 2 percent or less, at 2 percent when the CPI increase is between 2 and 3 percent, and at CPI - 1 when the CPI is at least 3 percent. Disability, early retirement, deferred and survivor benefits are available.

Defined Contribution: The Thrift Savings Plan (TSP) is similar to 401(k) plans; it has a component that mirrors traditional 401(k) plans and an option similar to Roth plans. CSRS and FERS employees may contribute up to the indexed IRS maximum ($17,500 in 2013). There is no Postal Service contribution for CSRS employees. For FERS employees, the Postal Service makes an automatic contribution of 1 percent of basic pay and a matching contribution of up to 4 percent of basic pay, for a total employer contribution of up to 5 percent of basic pay. Employees who will be at least age 50 in the year of contribution may make a separate catch-up contribution up to the indexed IRS maximum ($5,500 in 2013). TSP investment options are a government securities fund; index funds that track the Barclays Capital Aggregate Bond Index, the S&P 500, the Dow Jones U.S. Completion TSM Index, and the Morgan Stanley Capital International EAFE (Europe, Australasia, Far East) stock index; and lifecycle funds.

Supplemental Non-Qualified Deferred Compensation

Where appropriate and on a highly selective basis, the Postal Service offers supplemental non-qualified deferred compensation as a recruitment or retention tool.

Life Insurance

Officers are entitled to basic group life insurance coverage under the Federal Employees Group Life Insurance (FEGLI) Program in the amount of their annual basic salary, rounded up to the next $1,000, plus $2,000. If basic coverage is held, an officer will also receive an additional $10,000 coverage (Option A) and Option B coverage up to three times their salary. All premiums for Option A, Option B, and basic coverage are paid by the USPS. At their own expense, officers may elect additional Option B coverage in an amount equal to two times their salary. Also at their own expense, officers may elect Option C, family optional insurance coverage, of up to 5 multiples of $5,000 for their spouse and $2,500 for each eligible dependent child. Officers continuously covered under FEGLI for the 5 years immediately preceding retirement, or since the first opportunity, may continue coverage during retirement (if entitled to an immediate annuity). USPS pays former officers an actuarially determined lump sum to cover the cost of Option A premiums during retirement to retiring officers.

Health Benefits

The Postal Service participates in the Federal Employees Health Benefits (“FEHB”) program, which allows all career employees to enroll in one of a number of self only or self and family health benefit plans offered as part of this program. The Postal Service pays a portion of the cost of the premium for its officers and executives. Beginning in January 2012 and continuing over a three-year period, the Postal Service is increasing the percentage its officers and executives pay until the percentage matches the percentage paid by employees in the rest of the Federal Government. In 2012, the Postal Service’s share of the premium was reduced from 100 percent to 91 percent. In 2013, the Postal Service’s share of the premium was reduced to 82 percent of the federal weighted average premium, limited to not more than 85.5 percent of the total premium for any given plan, and enrolled officers and executives will pay the balance of the premium for the plan they select. In 2014, the Postal Service’s share of the premium is being reduced to 72 percent of the federal weighted average premium, limited to not more than 75.0 percent of the total premium for any given plan, and enrolled officers and executives will pay the balance of the premium for the plan they select.

Employees who retire with immediate entitlement to an annuity are eligible to continue FEHB coverage into retirement as long as they have participated in an FEHB plan for the five years preceding their retirement or since their first opportunity. Officers are under the same cost sharing formula as other Postal Service and Federal retirees—the Postal Service pays according to the federal premium formula, which is 72 percent of the federal weighted average premium, limited to not more than 75 percent of the total premium for any given plan, with the retiree paying the balance of the premium for the plan they select.

Other Benefits

To remain competitive with the comparator marketplace, the Postal Service also offers the following additional benefits to its executive officers: periodic physical examinations, parking, financial counseling services, employer-paid life insurance premiums, and membership in up to two airline clubs per year.

FISCAL YEAR 2013 EXECUTIVE OFFICER COMPENSATION

SUMMARY COMPENSATION TABLE

The following table presents information regarding the compensation of our five most highly compensated executive officers (the "named executive officers").

Name and principal position	Year	Salary ($)	Bonus ($)	Non-equity incentive plan compensation ($)	Change in pension value and Nonqualified deferred compensation earnings ($)	All other compensation ($)	Total ($)
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
Patrick R. Donahoe [1]	FY13	276,840	-	-	145,321	14,379	436,540
Postmaster General & CEO	FY12	276,840			186,536	48,717	512,093
	FY11	271,871		-	81,954	30,404	384,229
Joseph Corbett	FY13	239,000	-	35,000	29,504	18,981	322,485
Chief Financial Officer & Executive VP	FY12	239,000		30,000	26,748	20,093	315,841
	FY11	239,000		30,000	23,376	18,107	310,483
Nagisa M. Manabe [2]	FY13	240,000	-	-	19,621	17,944	277,565
Chief Marketing and Sales Officer & Executive VP	FY12	83,077	38,911	-	6,730	5,406	134,123
	FY11	-	-	-	-	-	-
Megan J. Brennan [2]	FY13	235,000	-	-	87,447	18,475	340,922
Chief Operating Officer & Executive VP	FY12	235,000	-	-	82,811	16,890	334,701
	FY11	225,308	25,000	-	67,512	41,176	358,996
Ellis A. Burgoyne[2]	FY13	230,000	-	-	232,950	7,287	470,237
Chief Information Officer & Executive VP	FY12	230,000	-	-	273,525	6,980	510,505
	FY11	220,846	25,763	-	228,384	33,695	508,688

Notes:

[1] *Mr. Donahoe was appointed Postmaster General & CEO as of December 4, 2010. Mr. Donahoe's FY11 (prior to December 4, 2010) data reflect compensation as the Deputy Postmaster General & COO.*

[2] *Ms. Manabe was appointed in May 2012, Ms. Brennan was appointed in January 2011, and Mr. Burgoyne was appointed in January 2011, therefore the salaries shown in the table above reflect actual compensation as they were appointed mid-year.*

Column (c) Salaries for executive level officers were frozen for calendar year 2013, 2012 and 2011. The salary amounts vary from FY12 and FY11 because salaries are based on the calendar year and not the fiscal year. Therefore, FY12 salary amounts include a portion of calendar year 2011 salary amounts and FY11 salary amounts include a portion of calendar year 2010 salary amounts. Ms. Manabe was not a named executive officer in FY11 and, as such, information for this fiscal year is not reported for her.

Column (d)Ms. Manabe was paid $38,911 in FY12 as a recruitment lump-sum when she was appointed to her position as Chief Marketing and Sales Officer, and Ms. Brennan was paid $25,000 in FY11 as a recruitment lump-sum when she was promoted to her position as Chief Operating Officer. Mr. Burgoyne was paid $25,000 in FY11 as a recruitment lump-sum when he was promoted to his position as Chief Information Officer and awarded $763 in his previous position as Vice President, Area Operations.

Column (e) The amounts in this column reflect the performance-based incentive compensation awarded to executive officers in prior fiscal years; as noted above, this incentive compensation was not awarded for FY13, FY12 or FY11. Pursuant to Mr. Corbett's employment contract, his non-equity incentive plan compensation includes $30,000 in deferred performance-based compensation for FY12 and FY11 and $35,000 for FY13. Any amounts that could not be paid to an executive officer due to the compensation cap or their contract were deferred for future payment.

Column (f) Mr. Donahoe and Mr. Burgoyne participate in the Civil Service Retirement System (CSRS), which is a defined benefit plan. Mr. Corbett, Ms. Manabe and Ms. Brennan participate in the Federal Employees Retirement System (FERS), a portion of which is a defined benefit plan. The calculation of retirement annuities under CSRS and FERS is explained in the Pension Benefits table, the associated note and in the Retirement Annuities section of the Compensation Discussion and Analysis. The amounts shown in column (f) for each of these individuals are the amounts by which the value of their annuities has increased since the end of the prior fiscal year. "Nonqualified deferred compensation earnings" is defined as above-market earnings on deferred income. There were no reportable amounts of non-qualified deferred compensation earnings for the named executive officers in FY13, FY12 or FY11, with the exception of Mr. Corbett, whose above-market earnings on deferred income were $721 in FY13, $473 in FY12 and $238 in FY11.

Column (g) For all executive officers listed, the 'All Other Compensation" category includes financial planning services, Thrift Savings Plan employer matching contribution for FERS employees, non-cash awards, parking, physical examinations, life insurance premiums paid for by the Postal Service, airline clubs, and relocation costs. Security costs valued at $6,451 for FY13 are also included for the Postmaster General.

GRANTS OF PLAN-BASED AWARDS

The following table presents information regarding potential non-equity incentive awards to the named executive officers for fiscal year 2014. Whether a named executive officer receives an award and, if so the amount of an award for fiscal year 2014 will depend on the Postal Service's and the individual's performance.

Name	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards		
		Threshold ($)	Target ($)	Maximum ($)
(a)	(b)	(c)	(d)	(e)
Patrick R. Donahoe	October 2013	14,728	33,221	103,815
Joseph Corbett	October 2013	12,715	28,680	89,625
Nagisa M. Manabe	October 2013	12,768	28,800	90,000
Megan J. Brennan	October 2013	12,502	28,200	88,125
Ellis A. Burgoyne	October 2013	12,236	27,600	86,250

Note: Columns (c)-(e). The USPS Pay-for-Performance (PFP) program relies on a 15-point scale with clearly defined and transparent corporate goals. The PFP plan target in any given year is set at a rating of 6. Incentives are not paid for any rating below or equal to 3. The maximum threshold for payment is set at a rating of 15. Individual ratings vary but the corporate score is used as the regulator. As noted above, no incentives were paid for FY2013.

PENSION BENEFITS

The following table shows the present value of accumulated pension benefits payable to the named executive officers as of September 30, 2013.

Name	Plan name	Number of years credited service (#)	Present value of accumulated benefit ($)
(a)	(b)	(c)	(d)
Patrick R. Donahoe	CSRS Annuity	38 Years	3,671,908
Joseph Corbett	FERS Annuity	5 Years	110,876
Nagisa M. Manabe	FERS Annuity	1 Year	26,351
Megan J. Brennan	FERS Annuity	27 Years	626,457
Ellis A. Burgoyne	CSRS Annuity	35 Years	2,984,309

Note: All named executive officers are eligible for CSRS or FERS retirement benefits available to career employees of the Federal Government. These benefits are described in the Retirement Annuities section of the Compensation Discussion and Analysis. The present value of the accumulated CSRS or FERS benefit represents the value of the pension over the individual's actuarial lifetime, as of September 30, 2013. Mr. Donahoe and Mr. Burgoyne participate in CSRS, and Mr. Corbett, Ms. Manabe and Ms. Brennan participate in FERS. Mr. Donahoe and Mr. Burgoyne are eligible for retirement, the calculation of which is described in the Retirement Annuities section of the Compensation Discussion and Analysis. The valuation for Mr. Corbett, Ms. Manabe and Ms. Brennan assumes that they have satisfied vesting requirements for retirement; however, because of their short tenure with the Postal Service, their retirement annuities have not vested.

NONQUALIFIED DEFERRED COMPENSATION

The following table presents information regarding the contributions to, and earnings on, the named executive officers' deferred compensation balances during the fiscal year ended September 30, 2013 and also shows the total deferred amounts for the named executive officers as of September 30, 2013.

Name	Executive contributions in last FY ($)	Aggregate earnings in last FY ($)	Aggregate balance at September 30, 2013 ($)
(a)	(b)	(c)	(d)
Patrick R. Donahoe	-	617	8,654
Joseph Corbett	35,000	4,918	144,662

Notes: Column (b) The amounts in this column represent amounts deferred due to the compensation cap or contract agreements. The amount shown for Mr. Corbett reflects the lump-sum performance retention payment required by his employment agreement which has been deferred.

Column (c) The Postal Service calculates interest on deferred compensation semi-annually at 5.0% per year for Mr. Corbett per contract, others are calculated at the Federal Long Term Rate; 4.2% in FY13. Interest is prorated from the relevant pay period of the deferral.

Column (d) The amount shown for Postmaster General Donahoe reflects a deferred FY10 PFP amount plus interest through FY13.

DIRECTOR COMPENSATION

The following table presents information regarding the compensation of the members of the Board of Governors during the fiscal year ended September 30, 2013.

Name	Fees earned or paid in cash ($)	All other compensation ($)	Total ($)
Mickey D. Barnett	38,400	-	38,400
James H. Bilbray	40,800	-	40,800
Louis J. Giuliano	39,900	-	39,900
Thurgood Marshall, Jr.	6,867	-	6,867
Dennis J. Toner	41,400	-	41,400
Ellen C. Williams	40,200	-	40,200

Note: Each Governor receives a basic stipend of $30,000 per year plus $300 per day for not more than 42 days of meetings each year. Governor Marshall served two months and 8 days in fiscal year 2013.

POTENTIAL PAYMENTS UPON TERMINATION

As described in the Compensation Discussion and Analysis, in 2009 the Postal Service entered into an employment agreement with Joseph Corbett, the Chief Financial Officer, for recruitment and retention purposes. Mr. Corbett's agreement provides for deferred compensation payable in installments commencing on the date of his separation from the Postal Service or October 22, 2019, whichever is later.

The Postmaster General and all of the other named executives are subject to the standard policies governing the CSRS or FERS, as described in the Compensation Discussion and Analysis. The present value of these CSRS and FERS benefits are found in the Pension Benefits table in the Executive Officer Compensation section of this report. The information below describes and quantifies certain compensation, in addition to that due pursuant to CSRS or FERS, that would become payable under existing plans and arrangements if the named executive officer's employment had terminated on September 30, 2013. Additionally, pursuant to statutes and regulations generally applicable to federal employees, the named executives would be entitled to receive the federal employer's standard contribution toward retiree health benefits, in the event they have qualifying service and participated in the Federal Employees Health Benefits Plan for the requisite period of time prior to retiring.

DEFERRED COMPENSATION

All federal employees, including Postal Service employees, are subject to annual compensation limits established pursuant to federal statutes and regulations. When amounts earned by federal employees cannot be paid because of these compensation limits, these payments are deferred until a year in which their payment would not cause total annual compensation paid to the employee to exceed the compensation limit, or the year in which an employee leaves federal service, whichever occurs first. Named executive officers appearing in the Nonqualified Deferred Compensation table in the Executive Officer Compensation section of this report have deferred compensation in the amounts indicated therein. These amounts would have been paid to them in a lump-sum or pursuant to their contract with the Postal Service following their departure, had they ended their Postal Service employment on September 30, 2013. Mr. Corbett's employment agreement provides for deferred incentives linked in part to his performance. Mr. Corbett began accruing deferred performance-based compensation at the end of fiscal year 2010. When Mr. Corbett concludes his Postal Service employment, or on October 22, 2019, if that date is later than Mr. Corbett's departure from the Postal Service, his deferred compensation will be paid to him in three approximately equal annual installments.

SUPPLEMENTAL PENSION BENEFIT

The Governors have not authorized a supplemental pension benefit for any executive officer at this time.

SEVERANCE PAYMENT

Mr. Corbett is entitled to a severance payment of $230,000, in the event the Postal Service terminates his employment for any reason other than for cause or breach of contract.

INSURANCE BENEFITS

The Governors have not authorized supplemental insurance benefits for any executive officer at this time. The insurance benefits to which all postal executives are entitled are described above.

OUTPLACEMENT ASSISTANCE

The Governors have not authorized any outplacement assistance for any executive officer at this time.

ACCRUED ANNUAL LEAVE

All Postal Service employees are entitled to receive and accrue paid days off, known as annual leave. Upon their separation from the Postal Service, all employees, including the named executive officers, are entitled to be paid, in a lump-sum, the value of all accrued annual leave. The table below shows the accrued value of the annual leave of the named executive officers, as of September 30, 2013.

Name	Value of accrued annual leave ($)
Patrick R. Donahoe	221,339
Joseph Corbett	55,154
Nagisa M. Manabe	24,923
Megan J. Brennan	82,589
Ellis A. Burgoyne	7,740

COMPENSATION COMMITTEE REPORT

The Compensation and Management Resources Committee has reviewed and discussed the Compensation Discussion and Analysis with management and, based on such review and discussions, the Compensation and Management Resources Committee recommended to the Governors that the Compensation Discussion and Analysis be included in this Report.

The Compensation and Management Resources Committee

Ellen C. Williams, Chairman
James H. Bilbray, Member
Louis J. Giuliano, Member

ITEM 12 — SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Not applicable to the United States Postal Service. As an "independent establishment of the executive branch of the Government of the United States," we do not issue equity securities.

ITEM 13 — CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

CERTAIN TRANSACTIONS

We enter into significant transactions with other government agencies, as disclosed throughout this report and the financial statements.

DIRECTOR INDEPENDENCE

All of the Governors of the Postal Service Board of Governors who are currently serving and have been appointed by the President of the United States, with the advice and consent of the Senate, are independent based on the New York Stock Exchange definition of independence.

ITEM 14 — PRINCIPAL ACCOUNTANT FEES AND SERVICES

In 2002, the Board of Governors selected Ernst & Young LLP as its independent auditor to perform external auditing services. In October 2009, the contract was extended to February 2014 with two option years to February 2016. As with previous contracts for external audit services, Ernst & Young LLP will not perform consulting work for us for the duration of the contract. Fees for audit services totaled approximately $11.0 million in 2013, $11.6 million in 2012, and $10.4 million in 2011, including fees associated with the annual audit, and including the reviews of the Postal Service's quarterly reports on Form 10-Q and testing of management's internal control assessment in accordance with the Sarbanes-Oxley Act in 2013, 2012, and 2011.

Part IV

Financial Review

ITEM 15 — EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(A)(1) AND (2) FINANCIAL STATEMENTS; FINANCIAL STATEMENT SCHEDULES

In 2002, the Board of Governors selected Ernst & Young LLP to audit the Postal Service's financial statements, together with the notes thereto. The report of Ernst & Young LLP dated November 15, 2013, is presented on page 74 of this Form 10-K. The financial statements included are the Statements of Operations, the Balance Sheets, the Statements of Changes in Net Deficiency, the Statements of Cash Flows, and the Notes to the Financial Statements.

1. FINANCIAL STATEMENTS

2. FINANCIAL STATEMENT SCHEDULES

All other financial statement schedules have been omitted because they are not applicable or the required information is included in the Postal Service's financial statements or the notes thereto.

(A)(3) EXHIBITS

Exhibit Number	Description of Exhibit
10.1	Employment/Compensation Contract with Joseph Corbett, Chief Financial Officer (filed with the PRC on January 29, 2009, as Exhibit No. 10.1 to the Current Report on Form 8-K).
31.1	Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities and Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities and Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Report of Independent Registered Public Accounting Firm

The Board of Governors of the United States Postal Service

We have audited the United States Postal Service's internal control over financial reporting as of September 30, 2013, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) (the COSO criteria). The United States Postal Service's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the United States Postal Service's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the United States Postal Service maintained, in all material respects, effective internal control over financial reporting as of September 30, 2013, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the balance sheets of the United States Postal Service as of September 30, 2013 and 2012, and the related statements of operations, changes in net deficiency, and cash flows for each of the three years in the period ended September 30, 2013 of the United States Postal Service and our report dated November 15, 2013 expressed an unqualified opinion thereon that included an explanatory paragraph regarding the United States Postal Service's ability to generate sufficient cash flow to meet all of its financial obligations throughout their fiscal year ending September 30, 2014.

McLean, Virginia
November 15, 2013

Report of Independent Registered Public Accounting Firm

The Board of Governors of the United States Postal Service

We have audited the accompanying balance sheets of the United States Postal Service as of September 30, 2013 and 2012, and the related statements of operations, changes in net deficiency, and cash flows for each of the three years in the period ended September 30, 2013. These financial statements are the responsibility of the United States Postal Service's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States) and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the United States Postal Service at September 30, 2013 and 2012, and the results of its operations and its cash flows for each of the three years in the period ended September 30, 2013, in conformity with U.S. generally accepted accounting principles.

As discussed more fully in Note 2 to the financial statements, the United States Postal Service, an independent establishment of the executive branch of the Government of the United States, is dependent upon future actions of the Government to continue its operations in the ordinary course as a result of continuing operating losses and statutory funding requirements for employee benefit obligations. The Postal Service has incurred recurring losses from its operations primarily due to sustained declines in mail volume, and statutory and regulatory restrictions have constrained the ability of the Postal Service to implement strategies to improve efficiency, reduce costs and increase revenues. Due to these conditions, during fiscal year 2013, the Postal Service defaulted on a $5.6 billion prefunding payment required to be paid to the Postal Service Retiree Health Benefits Fund by Public Law (P.L.) 109-435, the Postal Accountability and Enhancement Act, by September 30, 2013 and has not satisfied $11.1 billion of required prior year prefunding payments. The Postal Service does not expect to have sufficient cash to satisfy these obligations in arrears or to satisfy the related additional prefunding payment due by September 30, 2014 for $5.7 billion. The statutory requirement establishing the payments required by P.L. 109-435 contains no provisions addressing a payment default. The Postal Service does not, at this time, anticipate any legal consequences, under current law, from its inability to make the required payment. Management expects, but no assurances can be given, that additional legislation will be enacted in fiscal year 2014 to address the short-term funding requirements of the United States Postal Service and to address regulatory restrictions that have not allowed the Postal Service to adjust its operations to levels commensurate with its current revenue base.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the United States Postal Service's internal control over financial reporting as of September 30, 2013, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) and our report dated November 15, 2013 expressed an unqualified opinion thereon.

In accordance with *Government Auditing Standards,* we also have issued our report dated November 15, 2013 on our consideration of the United States Postal Service's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

McLean, Virginia
November 15, 2013

STATEMENTS OF OPERATIONS

	Years Ended September 30, 2013	2012	2011
(Dollars in millions)			
Operating Revenue	$ 67,318	$ 65,223	$ 65,711
Operating Expenses			
Compensation and benefits	46,708	47,689	48,310
Retiree health benefits	8,450	13,729	2,441
Workers' compensation	1,061	3,729	3,672
Transportation	6,735	6,630	6,389
Other	9,174	9,187	9,822
Total Operating Expenses	72,128	80,964	70,634
Loss from Operations	**(4,810)**	**(15,741)**	**(4,923)**
Interest and investment income	24	25	28
Interest expense	(191)	(190)	(172)
Net Loss	**$ (4,977)**	**$ (15,906)**	**$ (5,067)**

See accompanying notes to the financial statements.

BALANCE SHEETS — ASSETS

(Dollars in millions)	September 30, 2013	2012
Current Assets		
Cash and cash equivalents	$ 2,326	$ 2,086
Restricted cash	312	233
Receivables:		
Foreign countries	618	509
U.S. Government	118	142
Other	302	308
Receivables before allowances	1,038	959
Less: Allowance for doubtful accounts	54	41
Total receivables, net	984	918
Supplies, advances, and prepayments	122	126
Total Current Assets	**3,744**	**3,363**
Noncurrent Assets		
Property and equipment, at cost		
Buildings	24,452	24,452
Equipment	19,629	20,143
Land	2,895	2,919
Leasehold improvements	1,290	1,208
	48,266	48,722
Less: Allowances for depreciation and amortization	31,156	30,187
	17,110	18,535
Construction in progress	402	328
Total property and equipment, net	17,512	18,863
Other assets - principally revenue forgone receivable	385	385
Total Noncurrent Assets	**17,897**	**19,248**
Total Assets	**$ 21,641**	**$ 22,611**

See accompanying notes to the financial statements.

BALANCE SHEETS — LIABILITIES AND NET DEFICIENCY

	September 30, 2013	September 30, 2012
(Dollars in millions)		
Current Liabilities		
Compensation and benefits	$ 1,529	$ 1,856
Retiree health benefits	16,766	11,205
Workers' compensation	1,322	1,337
Payables and accrued expenses:		
Trade payables and accrued expenses	1,237	1,159
Foreign countries	564	583
U.S. Government	112	93
Total payables and accrued expenses	1,913	1,835
Deferred revenue-prepaid postage	2,993	4,014
Customer deposit accounts	1,229	1,210
Outstanding postal money orders	671	677
Prepaid box rent and other deferred revenue	460	475
Debt, current portion	9,800	9,500
Total Current Liabilities	**36,683**	**32,109**
Noncurrent Liabilities		
Workers' compensation costs	15,918	16,230
Employees' accumulated leave	1,982	1,855
Deferred appropriation and other revenue	159	194
Long-term portion capital lease obligations	354	410
Deferred gains on sales of property	308	313
Contingent liabilities and other	860	846
Debt, net of current portion	5,200	5,500
Total Noncurrent Liabilities	**24,781**	**25,348**
Total Liabilities	**61,464**	**57,457**
Net Deficiency		
Capital contributions of the U.S. government	3,132	3,132
Deficit since 1971 reorganization	(42,955)	(37,978)
Total Net Deficiency	**(39,823)**	**(34,846)**
Total Liabilities and Net Deficiency	**$ 21,641**	**$ 22,611**

See accompanying notes to the financial statements.

STATEMENT OF CHANGES IN NET DEFICIENCY

(Dollars in millions)	Capital Contributions of U.S. Government	Retained Deficit Since Reorganization	Total Net Deficiency
Balance, September 30, 2010	**$ 3,132**	**$ (17,005)**	**$ (13,873)**
Additional capital contributions	-	-	-
Net loss	-	(5,067)	(5,067)
Balance, September 30, 2011	**$ 3,132**	**$ (22,072)**	**$ (18,940)**
Additional capital contributions	-	-	-
Net loss	-	(15,906)	(15,906)
Balance, September 30, 2012	**$ 3,132**	**$ (37,978)**	**$ (34,846)**
Additional capital contributions	-	-	-
Net loss	-	(4,977)	(4,977)
Balance, September 30, 2013	**$ 3,132**	**$ (42,955)**	**$ (39,823)**

See accompanying notes to the financial statements.

STATEMENTS OF CASH FLOWS

(Dollars in millions)	Years Ended September 30, 2013	2012	2011
Cash flows from operating activities:			
Net Loss	$ (4,977)	$ (15,906)	$ (5,067)
Adjustments to reconcile net loss to cash provided by operations:			
Depreciation and amortization	1,901	2,075	2,313
(Gain) loss on disposals of property and equipment and impairments, net	(53)	(5)	6
Decrease (increase) in other assets - primarily, appropriations receivable revenue forgone	-	17	(25)
(Decrease) increase in noncurrent workers' compensation liability	(312)	2,343	2,413
Increase (decrease) in employees' accumulated leave	127	(175)	(53)
Increase (decrease) in noncurrent deferred appropriations and other revenue	13	(3)	(3)
Increase in other noncurrent liabilities	14	78	520
Changes in current assets and liabilities:			
Receivables, net	(66)	108	53
Supplies, advances and prepayments	4	(6)	(6)
Compensation and benefits	(327)	(534)	(539)
Retiree health benefits	5,561	11,198	7
Workers' compensation	(15)	82	140
Payables and accrued expenses	78	23	(182)
Customers deposit accounts	19	(176)	(43)
Deferred revenue-prepaid postage	(1,021)	517	913
Outstanding postal money orders	(6)	(11)	49
Prepaid box rent and other deferred revenue	(5)	(57)	(2)
Net cash (used in) provided by operating activities	**935**	**(432)**	**494**
Cash flows from investing activities:			
Change in restricted cash requirements	(79)	(28)	(10)
Purchase of property and equipment	(667)	(705)	(1,190)
Proceeds from deferred building sale	-	40	48
Proceeds from sales of property and equipment	158	108	89
Net cash used in investing activities	**(588)**	**(585)**	**(1,063)**
Cash flows from financing activities:			
Issuance of notes payable	5,500	5,300	5,800
Payments on notes payable	(5,500)	(4,100)	(4,600)
Net change in revolving credit line	-	800	(200)
Payments on capital lease obligations, net	(59)	(51)	(51)
U.S. Government appropriations - expensed	(48)	(129)	(63)
Net cash (used in) provided by financing activities:	**(107)**	**1,820**	**886**
Net increase (decrease) in cash and cash equivalents	240	803	317
Cash and cash equivalents at beginning of year	2,086	1,283	966
Cash and cash equivalents at end of year	**$ 2,326**	**$ 2,086**	**$ 1,283**
Supplemental cash flow disclosures:			
Interest paid	$ 190	$ 188	$ 166

See accompanying notes to the financial statements.

Notes to the Financial Statements

NOTE 1 — DESCRIPTION OF BUSINESS

NATURE OF OPERATIONS

The United States Postal Service (Postal Service) provides a variety of classes of mail service without undue discrimination among its many customers. This means that, within each class of mail, prices do not unreasonably vary by customer for the service provided. This fulfills the Postal Service's legal mandate to offer universal service at a fair price. The Postal Service has a very diverse customer base and is not dependent on a single customer or small group of customers. No single customer represents more than 3% of operating revenue. Operations are conducted primarily in the domestic market, with international mail services representing less than 5% of revenue.

Postal services are divided into several broad categories: First-Class Mail, Standard Mail, Periodicals, Shipping and Packages, International, and Other services. In terms of revenue, our largest categories are First-Class Mail, Standard Mail, and Shipping and Packages. First-Class Mail revenue for the three years ended September 30, 2013, 2012, and 2011 was $28,152 million, $28,856 million, and $30,030 million, respectively. Standard Mail revenue for the three years ended September 30, 2013, 2012, and 2011 was $16,915 million, $16,428 million, and $17,175 million, respectively. Shipping and Packages revenue for the three years ended September 30, 2013, 2012, and 2011 was $12,515 million, $11,592 million, and $10,670 million, respectively. Priority Mail and Priority Mail Express are significant services in the Shipping and Packages category. Significant market sectors for postal services include financial services, communications, distribution, delivery, and advertising. Products and services are sold through nearly 32,000 Post Offices, stations, and branches, plus a large network of Contract Postal Units (CPU), Community Post Offices (CPO), Village Post Offices (VPO), and commercial outlets which sell stamps on our behalf.

Approximately 90% of career employees are covered by collective bargaining agreements and are primarily represented by the American Postal Workers Union (APWU), National Association of Letter Carriers (NALC), National Postal Mail Handlers Union (NPMHU), and National Rural Letter Carriers' Association (NRLCA). By law, the Postal Service also consults with management organizations representing most of the employees not covered by collective bargaining agreements. These consultations provide an opportunity for non-bargaining unit employees in the field to participate directly in the planning, development, and implementation of programs and policies affecting managerial employees.

POSTAL REORGANIZATION

The Postal Service began operations on July 1, 1971, in accordance with the provisions of the *Postal Reorganization Act,* which established it as an "independent establishment of the executive branch of the Government of the United States." Governing decisions are made by a Board of Governors, which consists of independent members who are appointed by the President with the advice and consent of the Senate. The Board of Governors also includes the Postmaster General, who is appointed by the independent members of the Board of Governors and the Deputy Postmaster General, who is appointed by the independent Governors and the Postmaster General.

The U.S. Government's equity in the former Post Office Department (POD) became the Postal Service's beginning capital, with initial assets valued at original cost less accumulated depreciation. The transfer of assets from the POD, which included property, equipment, and cash, totaled $1.7 billion. Subsequent cash contributions and transfers of assets between 1972 and 1982 totaled approximately $1.3 billion. In 2009 and 2010, approximately 6,500 fuel efficient vehicles were contributed to the Postal Service under the provisions of the *American Recovery and Reinvestment Act*. The excess of the fair value of these vehicles over the fair value of the vehicles traded-in was recorded as additional non-cash capital contributions by the U.S. Government of $53 million in 2009 and $45 million in 2010. Total capital contributions of the U.S. Government are $3,132 million as of September 30, 2013. Although the U.S. Government remains responsible for the POD's liabilities, The *Balanced Budget Act of 1997* transferred the POD's workers' compensation liability to the Postal Service. The Postal Service has paid a total of $630 million towards these liabilities of the POD as of September 30, 2013.

The *Postal Accountability and Enhancement Act*, Public Law 109-435 (P.L. 109-435), made further revisions to the *Postal Reorganization Act*. The Postal Service's governing statute is codified in Title 39 of the United States Code. P.L. 109-435 created the Postal Regulatory Commission (PRC), endowing the PRC with regulatory and oversight obligations.

NOTE 2 — LIQUIDITY MATTERS

LIQUIDITY CONCERNS

The Postal Service continues to suffer from a severe lack of liquidity. The Postal Service held unrestricted cash of $2.3 billion and $2.1 billion as of September 30, 2013 and 2012. These cash balances represent approximately 9 days and 8 days, respectively, of average daily expenses. It had no remaining borrowing capacity on its $15 billion debt facility as of September 30, 2013 or 2012 (see Note 4 - *Debt*, for additional information). On October 15, 2013, when the Postal Service had to make its annual legally mandated workers' compensation payment to the Department of Labor (DOL), it had a cash balance on hand of approximately 6 days of its average daily expenses. This low level of available cash forced the Postal Service to default on the $5.6 billion legally-mandated prefunding of retiree health benefits due by September 30, 2013. Further, this level of cash could be insufficient to support operations in the event of another significant downturn in mail volume.

The Postal Service has suffered 8 consecutive quarters of net losses and has had net losses in 18 of the last 20 quarters. The net loss of $4,977 million for the year ended September 30, 2013, included $5.6 billion of expense accrued for the legally-mandated prefunding payment for retiree health benefits, on which the Postal Service was forced to default. The loss also included $1.3 billion of non-cash revenue recognized for a change in accounting estimate and a non-cash reduction in workers' compensation expense of $1.7 billion resulting from an increase in interest rates and other non-cash adjustments to the long-term liability. These non-cash items, which reduced the net loss, did not impact liquidity.

In addition to the requirement to prefund $5.6 billion of retiree health benefits for 2013, the Postal Service continues to pay the employer's share of the health insurance premiums for the Postal Service's retirees. This cost was $2.9 billion in 2013 and is projected to increase to $3.1 billion for 2014. In the past seven fiscal years, since the enactment of the Congressionally-mandated prefunding, the Postal Service has incurred $46 billion of net losses, including $38 billion of expenses for prefunding retiree health benefits. Through 2013, the Postal Service has paid $21 billion of cash into the Postal Service Retiree Health Benefit Fund (PSRHBF) for prefunding, plus an additional $17.1 billion that was transferred in 2007 from the then-overfunded CSRS fund. Since 2006, Postal Service debt has increased by nearly $13 billion, reaching the $15 billion borrowing limit at the end of 2012, and remaining there at September 30, 2013.

The Postal Service was forced to default on $16.7 billion of required prefunding payments to the PSRHBF for retiree health benefits in 2012 and 2013. This $16.7 billion is reflected as a current liability on the September 30, 2013 Balance Sheets. The statutory requirement establishing the prefunding payment schedule, P.L. 109-435, contains no provisions addressing a payment default. As of the date of this report, November 15, 2013, the Postal Service has suffered no financial penalties as a result of its inability to make these payments.

The requirement of the *Postal Accountability and Enhancement Act,* Public Law 109-435 (P.L. 109-435) to prefund its retiree health benefit obligations, a requirement not imposed upon other federal agencies or private sector businesses, plus the permanent drop in mail volume and changes in the mail mix caused by changes in use of mail by consumers and businesses, have been the consistent trends contributing to Postal Service losses since 2009. Without structural change to the business model, the Postal Service will continue to be negatively impacted by these factors and, absent legislative change, it anticipates continuing losses into the future.

Current projections indicate that the Postal Service will have a continued low level of liquidity in 2014. It is expected that the Postal Service will be unable to make the required $5.7 billion retiree health benefits prefunding payment due by September 30, 2014. This cash position will worsen in October 2014, when the Postal Service is required to make its annual payment of approximately $1.4 billion to the DOL for workers' compensation. A low level of liquidity will continue to exist, absent legislative actions by Congress that have been requested to assist the Postal Service in returning to a financially stable position.

In the short-term, should circumstances leave the Postal Service with insufficient cash, it would be required to implement contingency plans to ensure that mail delivery continues. These measures could require that the Postal Service prioritize payments to employees and suppliers ahead of some payments to the Federal Government, as has been done in the past. Additionally, the Postal Service continues to seek a refund of the overfunding of Federal Employees' Retirement System (FERS) as those funds would help alleviate some of the Postal Service's short-term liquidity risks. The Office of Personnel Management (OPM) projected that the FERS overfunding was $0.5 billion at September 30, 2013, the latest date available. However, the Office of the Inspector General (OIG) has determined that if Postal Service specific assumptions were used to estimate the FERS obligation, rather than the government-wide averages currently used, the surplus would be substantially greater than the amount calculated by OPM.

POSTAL ACTIONS TAKEN TO IMPROVE LIQUIDITY

On January 14, 2013, the Postal Service Board of Governors directed management to accelerate the realignment of Postal Service operations to further reduce costs in order to strengthen Postal Service finances, citing the fact that the Postal Service cannot wait indefinitely for legislation. In January and February, 2013, approximately 22,800 eligible employees represented by the APWU separated from the Postal Service. In addition, the increased utilization of non-career employees, as provided by the new labor agreements, allowed for better alignment of staffing and workload levels, resulting in reduced labor costs.

On February 6, 2013, the Postal Service announced plans to transition to a new delivery schedule beginning in August 2013, which would include package delivery Monday through Saturday and mail delivery Monday through Friday. The Postal Service expected to generate cost savings of approximately $2 billion annually, when fully implemented. However, after Congress passed a Continuing Resolution which clearly prohibits such an action, the Board of Governors announced on April 10, 2013, that implementation of the modified delivery schedule would be delayed until legislation changing the 6-day delivery requirement is enacted. The transition to a more cost-effective delivery schedule remains one of the most significant savings opportunities available to the Postal Service and remains a part of the *2013 Five-Year Business Plan* (Business Plan). The Postal Service continues to request comprehensive legislation that will enable changes to the business model and allow a transition to a new delivery schedule.

On April 17, 2013, the Postal Service released its updated comprehensive Business Plan which details the implementation of its targeted program to eliminate nearly $20 billion of annual cost from the business by the year 2017. This plan continues the Postal Service's efforts to aggressively pursue the strategies within its control to increase operational efficiency and to improve its liquidity position. The Business Plan requires a combination of operational realignment, aggressive cost reductions, and comprehensive legislation to reform the Postal Service's current business model. Several key provisions included in the Business Plan, in addition to the modified delivery schedule, are outlined below.

Alignment of Network Size and Cost with Reduced Mail Volumes

Operational initiatives outlined in the Business Plan include the accelerated consolidation of mail processing, retail, and delivery networks in order to better align them with mail volumes, and a reduction in hours at 13,000 Post Offices, accompanied by an expansion in alternate retail access. These extensive operational changes are being executed while the Postal Service continues to deliver appropriate levels of service to communities throughout America. This realignment of mail processing, retail, and delivery operations is expected to generate nearly $6 billion in annual cost reductions by the year 2016. In addition, as discussed above, the transition to a more cost-effective delivery schedule is one of the most significant savings opportunities in the Business Plan.

Revenue Management

The Postal Service continues to introduce new service offerings to generate new revenue and to slow the migration of existing revenue streams to electronic alternatives. Expanded use of digital technologies to enhance the mail experience, using connectivity to various websites, social media, and points of purchase, is a focus in enhancing the mail experience. However, legislative action is also required to give the Postal Service authority to generate new revenue and adapt to changing business conditions because the scope of products and services that the Postal Service can offer is limited by law.

Implementation of a New Healthcare Program

A vital component of the Business Plan is the requirement that the Postal Service dramatically reduce its healthcare costs. The Postal Service's proposed program is intended to provide Postal employees and retirees with equivalent benefits, but at lower cost. This proposal would require full integration with Medicare

A, B and D. It is estimated that the healthcare program could achieve more than $8 billion of projected annual savings by 2016. The Plan would eliminate the need for any additional retiree health benefit prefunding as established in P.L. 109-435, which would save the Postal Service over $5.6 billion annually through 2016. The Postal Service is working with its unions to develop a healthcare proposal intended to provide the Postal Service similar financial benefits while staying within the Federal Employee Health Benefit Plan (FEHBP).

Business Model Change
As noted above, achieving significant future efficiencies and cost reductions in areas that are under the Postal Service's control will not be enough to return it to a position of financial viability in the long run without comprehensive changes to its business model. The fulfillment of the Business Plan's complete cost savings and debt reduction objective can only be obtained with the enactment of comprehensive legislative reform of the Postal Service's business model. Business model changes requiring legislation include: Postal Service sponsorship of a healthcare program for both employees and retirees, which would eliminate the need for prefunding of retiree health benefits, and obtaining a refund of its over-payment to the FERS. Further, Congress needs to direct OPM that the Postal Service's funding obligation for FERS be calculated using postal specific economic assumptions and demographics. Congress must also enact legislation to allow the Postal Service to implement a 6-day package delivery and a 5-day mail delivery operational schedule.

Pricing Strategy
On September 25, 2013, the Postal Service proposed two separate price increases for Market Dominant products, an average 1.6% increase based on changes in the Consumer Price Index for all Urban Consumers (CPI-U) and a 4.3% average increase, on top of the 1.6% increase due to extraordinary and exceptional circumstances stemming from the deep recession that began in December 2007 and ended in the summer of 2009 (Great Recession) that have contributed to dangerously low liquidity and continued financial losses. The 4.3% "exigent" price increase was deemed necessary by the Board of Governors to enable the Postal Service to maintain a high level of postal services because of the precarious financial condition of the Postal Service and the uncertain path towards postal reform legislation. The proposed pricing change would increase the price of a First-Class Mail single-piece letter from 46 cents to 49 cents. Similar increases would be applied to Standard Mail, Package Services, Periodicals, and extra services. The proposed changes, which, if approved by the PRC, would go into effect on January 26, 2014, are expected to generate $2 billion of additional annualized revenue for the Postal Service.

MITIGATING CIRCUMSTANCES

The Postal Service's status as an independent establishment of the Executive branch that does not receive tax dollars for its operations presents unique requirements and restrictions, but also potentially mitigates some of the financial risk that would otherwise be associated with a cash shortfall. With revenues of $67 billion, generated almost entirely through the sale of postage, the Postal Service is at the core of an industry that employs an estimated 8 million Americans. The U. S. economy benefits greatly from the Postal Service, as well as the many businesses that provide the printing and mailing services that support it. Millions of check payments, letters, and packages upon which people depend, are mailed through the Postal Service on a daily basis. Disruption of the mail would cause hardships to the public and to the business and banking sectors and could cause some businesses to shut down. Therefore, it is unlikely that, in the event of a cash shortfall, the Federal Government would allow the Postal Service to significantly curtail or cease operations.

The Postal Service continues to inform the Administration, Congress, the PRC, and other stakeholders of the immediate and longer-term financial issues it faces and the legislative changes that would help provide financial stability. Given the vital role the Postal Service plays in the U.S. economy, it is hopeful that Congress will enact, and the President will sign, legislation which will mitigate the Postal Service's short-term financial challenges and provide it with the authority to make needed changes to ensure long-term financial stability. However, there can be no assurances that the requests to restructure the PSRHBF prefunding payment schedule, or any other legislative changes, will be made in time to impact 2014, or at all.

NOTE 3 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF ACCOUNTING AND USE OF ESTIMATES

The Postal Service conforms to U.S. Generally Accepted Accounting Principles (U.S. GAAP) and maintains its accounting records and prepares its financial statements on the accrual basis of accounting. Following these principles, estimates and assumptions are made that affect the amounts reported in the Financial Statements and disclosed in the Notes to the Financial Statements. Actual results may differ from those estimates.

These financial statements reflect the audited results of operations of the United States Postal Service for the years ended September 30, 2013, 2012, and 2011 and its financial position as of September 30, 2013 and 2012. All references to years, unless otherwise stated, refer to the fiscal year beginning October 1 and ending September 30. All references to quarters, unless otherwise stated, refer to quarters within fiscal years 2013, 2012, and 2011. Subsequent events through November 15, 2013, the date that the financial statements were issued, have been evaluated.

SEGMENT INFORMATION

The Postal Service operates in one segment throughout the United States, its possessions, and territories.

RECLASSIFICATIONS

Certain prior year amounts related to cash and cash equivalents and restricted cash have been reclassified to conform to the current year's presentation. These reclassifications had no effect on previously reported operating losses and net losses.

RELATED PARTIES

The Postal Service has significant transactions with other U.S. Government agencies, as disclosed throughout this report. In addition to those amounts disclosed elsewhere, deferred revenue of $37 million for 2013 and $27 million for 2012 related to government deposits is included in the Balance Sheets in "Customer Deposit Accounts."

CASH AND CASH EQUIVALENTS

Securities that mature within 90 days from the purchase date are deemed to be cash equivalents.

RESTRICTED CASH

Restricted cash is comprised of funds received by the Postal Service which are restricted for specific purposes and therefore not available for immediate and general use.

The Postal Service held $312 million and $233 million in restricted cash as of September 30, 2013 and 2012, respectively. These amounts are comprised of consumer fraud and forfeiture funds received as the result of investigations by the U.S. Postal Inspection Service and restricted by agreement with the U.S. Department of Justice, and amounts recovered for the victims of a large mail and wire fraud case.

Receivables and Allowance for Doubtful Accounts

Receivables are carried at book value. Billed receivables are generally liquidated within one year and do not have a stated interest rate.

Provision is made for doubtful accounts on outstanding receivables based on historical collection experience and an estimate of uncollectible accounts as of the reporting date. The following summarizes activity in the allowance for doubtful accounts:

Allowance for Doubtful Accounts (Dollars in millions)	2013	2012
Beginning Balance	$ 41	$ 37
Provision for Doubtful Accounts	23	11
Write-offs	(10)	(7)
September 30 Balance	$ 54	$ 41

Property and Equipment

Property and equipment are recorded at cost, which includes the interest on borrowings used to pay for the construction of major capital additions, less accumulated depreciation. Property and equipment are depreciated, using the straight-line method, over the estimated useful lives, which range from 3 to 40 years, except for buildings with historic status, which are depreciated over 75 years. See Note 5*, Property and Equipment,* for detailed information regarding Property and Equipment.

Leasehold improvements are amortized over the period of the lease or the useful life of the improvement, whichever is shorter. Leasehold improvements that are placed in service after the start of the lease term are amortized over the shorter of the useful life of the asset or the remaining lease term, including renewal options that are reasonably assured to be executed.

The depreciation and amortization of capital assets over estimated useful lives requires management to make judgments about future events. Capital assets are utilized over relatively long periods of time; therefore, periodic evaluations are made to assess whether adjustments to the estimated service lives are necessary to ensure that these estimates properly match the economic useful lives of the assets.

Asset Retirement Obligations

A liability for the estimated costs of legally binding obligations to perform asset retirement activities is included in “Contingent liabilities and other” on the Balance Sheets.

Impaired Assets

In accordance with Accounting Standards Codification (ASC) Topic 360-10-35, *Accounting for the Impairment or Disposal of Long-Lived Assets,* impairment losses on long-lived assets are recorded when events or circumstances indicate that the assets’ fair value is less than the carrying value. When such a determination is made, the carrying values of the assets are written down to fair value. Fair value is determined by independent appraisals for real property. Due to the absence of a market for most types of mailing equipment, impaired equipment assets are usually assigned a fair value of zero. See Note 5*, Property and Equipment,* for additional information related to impairment charges for 2013, 2012, and 2011.

Outstanding Postal Money Orders

Postal money orders are sold at retail locations. A fee is charged at the time of sale. The fee is recognized as revenue at the time of sale. A current liability is recorded for money orders expected to be presented for payment.

REVENUE RECOGNITION/DEFERRED REVENUE-PREPAID POSTAGE

Deferred revenue-prepaid postage is an estimate of postage that has been sold, but not yet used by customers. Revenue is recognized only when services are rendered. Because payments for postage are collected in advance of services being performed, revenue is deferred and reflected in the Balance Sheets as *"Deferred revenue-prepaid postage."* Two categories of postage sales account for the majority of deferred revenue–prepaid postage: stamp sales and metered postage.

Stamp sales in 2013 totaled $7.5 billion. The stamp usage for the deferred revenue estimate is developed and validated through complex mathematical and statistical methods, including regression analysis of stamp usage trends. Small differences in inputs can lead to significant differences in the estimate of the liability. The estimated stamp usage is subtracted from stamp sales with the difference representing our obligation to perform future services. We reduce that obligation by recognizing a provision for stamps sold that may never be used; either through loss, damage, or collecting activity, commonly referred to as the "breakage factor." Breakage represents those stamps that will never be used on a mail piece due to loss, damage or having been saved in a collection.

Metered postage is primarily used by businesses. Deferred revenue related to meters is estimated by monitoring the actual usage of all postage meters that had postage added during the month preceding the financial measurement date. The information from the two most recent meter readings is used to derive a deferral percentage, which is applied to all postage meter receipts for the month. Metered postage receipts in September 2013 subject to deferral totaled $1.1 billion.

Also included in the estimate of deferred revenue–prepaid postage is an estimate for mail that is in transit within the postal system.

In Quarter II, 2012, the Postal Service improved the estimation technique employed to estimate deferred revenue-prepaid postage for Forever Stamps. The Postal Service obtained new information regarding its customers' stamp usage and retention habits. This enabled the Postal Service to update its estimate of stamps that will never be used for mailing. As a result of this enhancement, the liability for deferred revenue-prepaid postage was decreased by $59 million.

During Quarter III, 2013, the Postal Service recorded a non-recurring adjustment of $246 million to the deferred revenue – prepaid postage liability which resulted in an increase to revenue for the quarter. This adjustment was for usage related to Forever-stamped envelopes and cards that was previously unrecognized and is considered immaterial to the current and prior periods

In Quarter IV, 2013, we received new data, not previously available, regarding consumer behavior and usage patterns related to Forever Stamps. As a result of this new information we recorded a non-recurring adjustment related to the estimate used to recognize revenue relating to changes in consumer behavior not previously available regarding Forever Stamps. This new information provided improved visibility into the usage of Forever Stamps which revealed that the Postal Service should recognize approximately $1.3 billion in revenue previously deferred related to Forever Stamps.

These changes are considered changes in accounting estimates under U.S. GAAP and, accordingly, the impact of the changes was reflected in the period that the changes to the estimate were made.

The table below details deferred revenue-prepaid postage by category.

Deferred Revenue - Prepaid Postage (Dollars in millions)	September 30, 2013	 2012
Forever Stamps	$ 2,179	$ 3,253
Non-Forever Stamps	96	117
Meters	403	362
In-Transit	265	259
Other*	50	23
Total Deferred Revenue - Prepaid Postage	**$ 2,993**	**$ 4,014**

*** Other consisted primarily of print on-demand labels in 2013. In 2012 and 2011, other consisted primarily of precancelled stamps.**

CONTINGENT LIABILITIES

The Postal Service is involved in various legal proceedings and contingencies. A liability is recorded based on an estimate of the probable cost to resolve each contingency. The actual resolution of these contingent liabilities may differ from the estimates. If a contingent liability is settled for an amount greater than the estimate, a future charge to income would result. Likewise, if a contingent liability is settled for an amount that is less than the estimate, a future credit to income would result.

The events that may impact contingent liabilities are often unique and generally are not predictable. At the time a contingency is identified, all relevant facts are considered. A liability is recorded for a loss when the loss is probable of occurring and reasonably estimable. Events may arise that were not anticipated and the outcome of a legal proceeding may result in a loss to the Postal Service that differs from the previously estimated liability. These factors could result in a material difference between estimated and actual operating results. See Note 7, *Contingent Liabilities,* for additional information.

EMPLOYEES' ACCUMULATED LEAVE

Employees earn annual leave based on their number of creditable years of service. The Postal Service advances annual leave to employees at the beginning of each calendar year for the value of leave they will earn for the year. Leave taken by employees before it is earned is considered an advance. Advances were $152 million and $166 million at September 30, 2013, and 2012, respectively. Employees' accumulated leave represents leave earned as of the balance sheet date and is recorded net of advances.

RETIREE BENEFITS

Employees are eligible to participate in the Federal Government sponsored pension and retiree health benefits programs. The Postal Service is required to provide funding for these plans as determined by the administrator of the plans, the OPM. The Postal Service cannot direct the costs, benefits, or funding requirements of the plans. Accordingly, the plans are accounted for using multiemployer plan accounting rules and expense is recorded in the period the contribution is due and payable. These amounts can fluctuate significantly from year to year, if changes in funding requirements are made. See Note 8, *Retirement Benefit Plans*, and Note 9, *Health Benefit Plans*, for additional information.

WORKERS' COMPENSATION

Workers ' compensation expenses are incurred under a program that the Postal Service is legally required to participate in that is administered by the DOL and include employees' medical expenses, compensation for wages lost, and DOL administrative fees. See Note 10, *Workers' Compensation*, for additional information.

REVENUE FORGONE APPROPRIATION

Revenue forgone is an appropriation from Congress which covers the cost of providing mailing services to certain groups at no cost or at reduced rates. The costs incurred for this service are estimated by the Postal Service and submitted to Congress annually. Congress subsequently approves or alters the amount and funds the necessary appropriation. See Note 12, *Revenue Forgone*, for additional information.

EMERGENCY PREPAREDNESS APPROPRIATION

Emergency preparedness appropriations were received from Congress to help pay the costs of keeping the mail, postal employees, and postal customers safe, and are restricted for such use. These funds were accounted for as deferred revenue upon receipt and were generally utilized to procure capital equipment. The majority of these funds were received in 2001. Revenue for emergency preparedness appropriations is recognized when depreciation expense for the purchased equipment is recorded. The emergency preparedness appropriations revenue recognized during the year ended September 30, 2013, was $48 million, and for the years ended September 30, 2012, and 2011, was $129 million and $63 million, respectively. The majority of the amount recorded in 2012 reflects the revenue recognized to offset the impairment expense related to equipment originally funded by appropriations that was taken out of service as a result of a process improvement.

Deferred revenue at September 30 related to emergency preparedness appropriations was $184 million in 2013 and $231 million in 2012. The current portion is included in “Prepaid box rent and other deferred revenue,” and the noncurrent portion is included in “Deferred appropriation and other revenue” on the Balance Sheets.

ADVERTISING EXPENSES

Advertising costs are expensed as incurred and are included in other operating expenses. Advertising expenses were $140 million in 2013, $125 million in 2012, and $147 million in 2011.

COMPENSATION AND BENEFITS

Compensation and benefits payable consists of the salaries and benefits owed to current and former employees, including the amounts employees have earned but have not yet been paid, unemployment, and health benefit costs.

REPAIRS AND MAINTENANCE

Repairs and maintenance are charged to expense as incurred. This expense amounted to $734 million in 2013, $708 million in 2012, and $725 million in 2011.

SUPPLIES AND REPAIR PARTS

Supplies and repair parts consist of parts for mail processing equipment and are valued at average cost. These supplies and repair parts are included in supplies and prepayments, and expense is recognized when placed in service. A majority of motor vehicle spare parts are supplied through consignment agreements and not included in inventory. Total supplies and repair parts were $107 million, $106 million and $93 million for 2013, 2012, and 2011, respectively.

FOREIGN CURRENCY TRANSLATION

Foreign currency risk exists related to settlements of receivables and payables with foreign postal administrations for international mail. The majority of international accounts are denominated in special drawing rights (SDRs). The SDR exchange rate fluctuates daily based on a basket of currencies comprised of the Euro, Japanese yen, British pound sterling, and the U.S. dollar. Changes in the relative value of these currencies will increase or decrease the value of the settlement accounts and result in a gain or loss that is included in operating results. The impact of foreign currency translation on operating results was immaterial for 2013, 2012, and 2011.

Recent Accounting Pronouncements

New pronouncements issued but not effective until after September 30, 2013, are not expected to have a significant effect on our consolidated financial position or results of operations.

Note 4 — Debt

Debt Limits

Under the *Postal Reorganization Act*, as amended by Public Laws 101-227 and 109-435, the Postal Service can issue debt obligations. The Postal Service is limited by statute to net annual debt increases of $3 billion. Total debt cannot exceed $15 billion.

Note Purchase Agreements

The Postal Service has two revolving credit line facilities, renewable annually, with the Federal Financing Bank (FFB), a government-owned corporation under the general supervision of the Secretary of the Treasury, both of which are available until April 2014. One, a short-term credit line, enables it to draw up to $3,400 million with two days prior notice. Borrowings under this credit line are typically on an overnight basis, but can have a maximum term of up to one year. The second credit line, which only allows for borrowings on an overnight basis, enables borrowings of up to $600 million on the same business day that funds are requested. The interest rates for borrowings under these credit facilities are determined by the Treasury each business day. As of September 30, 2013, these two revolving credit facilities were fully drawn.

In addition, under the provisions of a Note Purchase Agreement with the FFB, the Postal Service can use a series of other notes with varying provisions to draw upon with two days prior notice. The Note Purchase Agreement, renewable annually, was extended to September 30, 2014.

These credit line facilities and note arrangements provide the flexibility to borrow short or long-term, using fixed or floating-rate notes. Fixed-rate notes can be either callable or non-callable at the option of the Postal Service.

Debt, all of which is unsecured and not subject to sinking fund requirements, can be repaid at any time at a price determined by the Secretary of the Treasury, based on prevailing interest rates in the Treasury Security market at the time of repayment. As of September 30, 2013, the premium associated with a prepayment of all debt is $322 million based on the prevailing interest rates. Debt as of September 30, 2013, and 2012, is as follows:

Indebtedness to Federal Financing Bank

(Dollars in millions)

Maturity	Debt Type	September 30, 2013 Balance (Audited)	September 30, 2013 Rate %	September 30, 2012 Balance (Audited)	September 30, 2012 Rate %
Fixed rate notes - short-term					
May 30, 2013	Fixed rate-payable at maturity	$ -	-	$ 1,200	0.298
September 18, 2014	Fixed rate-payable at maturity	500	0.226	500	0.299
November 14, 2013	Fixed rate-payable at maturity	1,300	0.293	1,300	0.227
January 31, 2014	Fixed rate-payable at maturity	300	2.035	-	-
May 1, 2014	Fixed rate-payable at maturity	1,200	0.242	-	-
Fixed rate notes - long-term					
January 31, 2014	Fixed rate-payable at maturity	-	-	300	2.035
May 2, 2016	Fixed rate-payable at maturity	300	2.844	300	2.844
November 15, 2018	Fixed rate-payable at maturity	500	3.048	500	3.048
February 15, 2019	Fixed rate-payable at maturity	700	3.296	700	3.296
May 15, 2019	Fixed rate-payable at maturity	1,000	3.704	1,000	3.704
May 15, 2019	Fixed rate-payable at maturity	500	3.513	500	3.513
August 16, 2021	Fixed rate-payable at maturity	1,000	2.066	1,000	2.066
May 17, 2038	Fixed rate-payable at maturity	200	3.770	200	3.770
February 15, 2039	Fixed rate-payable at maturity	1,000	3.790	1,000	3.790
Floating rate notes and revolving credit line - short-term					
June 19, 2013	Floating rate	-	-	500	0.236
October 17, 2013	Floating rate	700	0.166	700	0.228
December 17, 2013	Floating rate	700	0.135	700	0.227
June 18, 2014	Floating rate[1]	500	0.145	-	-
September 17, 2014	Floating rate[2]	600	0.145	600	0.231
	Short-term revolving credit line	3,400	0.166	3,400	0.176
	Overnight revolving credit line	600	0.155	600	0.186
Total debt		**$ 15,000**		**$ 15,000**	
Current portion of debt		**$ 9,800**		**$ 9,500**	
Long-term portion of debt		**$ 5,200**		**$ 5,500**	

[1] Floating Rate Note- Repurchasable at par on each interest rate reset date and the interest rate resets on December 18, 2013, and March 18, 2014.

[2] Floating Rate Note- Repurchasable at par on each interest rate reset date and the interest rate resets on December 17, 2013, March 17, 2014, and June 17, 2014.

At September 30, 2013, scheduled repayments of debt principal, exclusive of capital leases, is as follows:

Scheduled Debt Principal Repayments - By Fiscal Year (Dollars in millions)		
2014	$	9,800
2015		-
2016		300
2017		-
2018		500
Thereafter		4,400
Total Debt Maturities	**$**	**15,000**

NOTE 5 — PROPERTY AND EQUIPMENT

Property and equipment are recorded at cost less accumulated depreciation, which includes the interest on borrowings used to pay for the construction of major capital additions. Interest capitalized during the years ended September 30, 2013 and 2012 was not material.

Deferred gains on sales of property are recognized in income and the sold assets removed from the accounting records when any lease-backs or other conditions requiring continued Postal Service involvement in the properties have expired. Deferred gains recognized in income were $14 million in 2013, $79 million in 2012, and $17 million in 2011.

In September 2011, the Postal Service announced plans to realign its mail processing, delivery, and retail networks. These plans continue to be updated for maximum operating and cost efficiencies. See Note 2, *Liquidity Matters,* for details. As a result, an assessment was performed on both the real estate and equipment associated with the proposed realignment efforts to determine if any impairment should be recognized. Any facility lacking utility to the network will be marked for disposal. Once a facility is marked for disposal, determination of impairments, if any, will be made by management. As of September 30, 2013, these evaluations are ongoing. For the year ended September 30, 2013, there were no significant impairment charges related to these plans.

Assets classified as held for sale, which approximated $78 million as of September 30, 2013, and $111 million as of September 30, 2012, are included on the Balance Sheets as components of both “Land” and “Buildings.”

Impairment charges of $26 million, $80 million, and $21 million were recorded in 2013, 2012, and 2011, respectively, and are included in the Statements of Operations in “Other.” Impairments recorded in 2013 were mostly related to the consolidations made in an effort to enhance productivity. The majority of the impairment expenses in 2012 are related to equipment taken out of service as a result of a process improvement.

NOTE 6 — LEASES AND OTHER COMMITMENTS

LEASES

Future minimum lease payments for all non-cancellable leases as of September 30, 2013, are as follows:

Lease Obligations (Dollars in millions)		Operating		Capital
2014	$	720	$	94
2015		667		91
2016		597		88
2017		530		78
2018		479		64
Thereafter		3,687		150
Total Lease Obligations	$	6,680	$	565
Less: Interest				153
Total Capital Lease Obligations			$	412
Less: Current Portion of Capital Lease Obligations				58
Noncurrent portion of capital lease obligations			$	354

Leases generally have renewal options for periods ranging from 3 to 20 years. Certain non-cancellable real estate leases have purchase options at prices specified in the leases.

Capital leases included in buildings at September 30 were $855 million in 2013 and $886 million in 2012. Total accumulated amortization was $576 million, and $563 million at September 30, 2013, and 2012, respectively. Amortization expense for assets recorded as capital leases is included in “Other” in the Statements of Operations.

Rental expense for the years ended September 30, is summarized as follows:

Rental Expense (Dollars in millions)	Years ended September 30,					
		2013		2012		2011
Non-cancellable real estate leases	$	915	$	938	$	956
GSA facilities leases*		37		41		42
Equipment and other short-term rentals		153		176		161
Total Rental Expense	$	1,105	$	1,155	$	1,159

*General Services Administration leases subject to 120-day cancellation notice.

CAPITAL COMMITMENTS

At September 30, 2013, financial commitments for approved capital projects in progress are as follows:

Capital Commitments (Dollars in millions)		September 30, 2013		2012
Mail Processing Equipment	$	316	$	281
Building Improvements, Construction, and Building Purchase		329		301
Postal Support Equipment		50		56
Vehicles and Other		13		6
Total Capital Commitments	$	708	$	644

NOTE 7 — CONTINGENT LIABILITIES

Contingent liabilities consist mainly of claims and lawsuits resulting from labor, employment, environmental matters, property damage claims, injuries on postal properties, issues arising from postal contracts, personal claims, and traffic accidents.

Each quarter, significant new claims and litigation are evaluated for the probability of an adverse outcome. If the claim is deemed probable of an unfavorable outcome and the amount of the potential resolution is reasonably estimable, a liability for the loss is recorded. Each quarter, any pre-existing claims and litigation are reviewed and adjusted for resolutions or revisions to prior estimates. This evaluation of cases resulted in an increase to the liability of $126 million and $51 million for the years ended September 30, 2013, and 2012, respectively.

As previously reported, on January 14, 2010, the Equal Employment Opportunity Commission's (EEOC) Office of Federal Operations certified a class action case against the Postal Service in a matter captioned McConnell v. Donahoe (first instituted as McConnell v. Potter in 2006). The class currently consists of all permanent rehabilitation employees and limited duty employees who have been subjected to the National Reassessment Process (NRP) from May 5, 2006, to July 1, 2011. The Postal Service used the NRP to ensure that its records were correct and that employees receiving workers' compensation benefits were placed in jobs consistent with their abilities. The case alleges violations of the Rehabilitation Act of 1973 resulting from the NRP's failure to provide a reasonable accommodation, the NRP's wrongful disclosure of medical information, the creation by the NRP of a hostile work environment, and the NRP's adverse impact on disabled employees. The class is seeking injunctive relief and damages of an uncertain amount. If the plaintiffs were able to prove their allegations in this matter and to establish the damages they assert, then an adverse ruling could have a material adverse impact on the Postal Service. However, the Postal Service disputes the claims asserted in this class action case and is vigorously contesting the matter. There was no material change in the status of this case during the twelve months ended September 30, 2013.

The following table summarizes contingent liabilities provided for in the financial statements at September 30, 2013, and 2012.

Contingent Liabilities (Dollars in millions)		September 30, 2013		2012
Labor- Employment	$	809	$	722
Environmental		48		48
Tort		49		43
Contractual		33		-
Total Contingent Liabilities	$	939	$	813

Based on currently available information, adequate provision has been made for probable losses arising from all claims and suits. The current portion of this liability is $108 million at September 30, 2013, and $61 million as of September 30, 2012, and is included on the Balance Sheets in “Trade payables and accrued expenses.” The long-term portion of this liability at September 30, 2013, was $831 million and $752 million at September 30, 2012. These amounts are accrued in “Contingent liabilities and other” on the Balance Sheets.

In addition to the amounts accrued in the financial statements, the Postal Service also has claims and lawsuits which it deems reasonably possible of an unfavorable outcome which range from $325 million to $925 million at September 30, 2013. At September 30, 2012, the range was $375 million to $425 million. No provisions for these possible losses are accrued or included in the financial statements.

NOTE 8 —RETIREMENT BENEFIT PLANS

PENSION PROGRAMS

Employees participate in one of three Federal Government pension programs based on the starting date of their employment with the Federal Government. Employee and employer contributions are made to the Civil Service Retirement System (CSRS), the Dual Civil Service Retirement System/Social Security (Dual CSRS), or the FERS, all of which are administered by the OPM. As government-sponsored benefit plans, the CSRS, Dual CSRS and FERS are not subject to the provisions of the *Employee Retirement Income Security Act of 1974*, as amended. Employees may also participate in the Thrift Savings Plan (TSP), a defined contribution retirement savings and investment plan, administered by the Federal Retirement Thrift Investment Board.

<u>CSRS</u>
The CSRS was established by the *Civil Service Retirement Act*, which was enacted on May 22, 1920. It is a stand-alone retirement plan intended to provide reasonable benefits for long-service Federal employees. The CSRS, which is closed to new participants, covers most Federal employees who first entered a covered position prior to January 1, 1984. CSRS provides a basic annuity toward which the Postal Service and the employee contribute at rates prescribed by law. Effective October 2006, P.L. 109-435 suspends the Postal Service employer obligation to make contributions for CSRS employees’ retirement until 2017. At that time, OPM will perform an actuarial valuation to determine whether additional payments are necessary. The Postal Service does not match TSP contributions for employees participating in CSRS.

<u>Dual CSRS</u>
Dual CSRS is a subset of the CSRS plan. Employees with prior U.S. Government service who were rehired between January 1, 1984, and January 1, 1987, are covered by Dual CSRS, which consists of a basic annuity and Social Security. The Postal Service and the employee contribute to Social Security and the basic annuity at rates prescribed by law. The Postal Service does not match TSP contributions for employees participating in Dual CSRS.

<u>FERS</u>
Effective January 1, 1987, officers and career employees hired since December 31, 1983, are covered by the *Federal Employees’ Retirement System Act of 1986*, except for those covered by Dual CSRS. Also included are employees formerly covered by CSRS who elected in either 1987, 1988, or 1998 to participate in FERS.

FERS consists of Social Security, a basic annuity plan, and the TSP. The Postal Service and the employee contribute to Social Security and the basic annuity plan at the rates prescribed by law. The Postal Service is required by law to contribute to the TSP a minimum of 1% per year of the basic pay of employees covered by this system. It is also required by law to match a voluntary employee contribution up to 3% of the employee’s basic pay, and 50% of an employee’s contribution of between 3% and 5% of basic pay.

As discussed above, the pension plans generally provide for retirement, death and/or termination benefits for eligible employees, based on specific eligibility/participation requirements, vesting periods, and benefit formulas. The Postal Service is required to provide funding for these plans as determined by the administrator, the OPM. Annual funding requirements can fluctuate significantly if changes are made by the passage of a new federal law or, in some circumstances, by OPM under its authority as administrator. The Postal Service cannot direct the costs, benefits, or funding requirements of the plans. Accordingly, the

Postal Service's participation in the federal retirement plans is accounted for using multiemployer plan accounting rules.

The risks of participating in these federal retirement plans are different from single-employer retirement plans in the following aspects:

- Assets contributed to the plans by one agency may be used to provide benefits to employees of other participating agencies.
- If a participating agency stops contributing to the plans, the unfunded obligations of the plan may be borne by the remaining participating agencies.
- Postal Service participation in the federal retirement plans is required by law. If the Postal Service were permitted by a change in law to stop participating in some of the Federal retirement plans, it may be required to pay those plans an amount based on the underfunded status of the plan, referred to as a withdrawal liability, if such a liability exists at that time.

Factors that could cause the Postal Service to make significantly higher future contributions to these plans include unfavorable investment performance, changes in demographics, and increased benefits to participants. In addition, changes in law or regulation could significantly impact future required contributions.

The CSRS plan for the Federal Government, taken as a whole, is 65% funded. The Postal Service made no contribution to the CSRS plan in 2013, 2012, or 2011, per the requirements of P.L. 109-435. The FERS plan is greater than 80% funded, for the Federal Government as a whole. For 2013, 2012, and 2011, the Postal Service provided more than 5% of the total plan contributions for FERS from all employers (as disclosed in the OPM's *Civil Service Retirement and Disability Fund Annual Report*). Because these government-sponsored retirement plans are not subject to the rules and regulations of the *Pension Protection Act of 2006*, typical plan measurements such as zone status, and financial improvement plan status, or rehabilitation plan status are not available for these plans.

EMPLOYEE / EMPLOYER CONTRIBUTIONS

As required by law, the Postal Service contribution rate was 11.9% of base salary for current FERS employees for the twelve months ended September 30, 2013 and 2012, and 11.7% of base salary for FERS employees for the twelve months ended September 30, 2011. For employees covered by the FERS system, the Postal Service is also required to contribute to the TSP a minimum of 1% per year of the basic pay, and to match a voluntary employee contribution up to 3% of the employee's basic pay, and 50% of an employee's contribution of between 3% and 5% of basic pay.

P.L. 109-435 suspends until 2017 the employer contributions to CSRS that would otherwise have been required under Title 5, Section 8334(a)(1) of the United States Code. At that time OPM will determine whether additional funding is required for the benefit of postal retirees. As a result, the Postal Service contribution rate for CSRS and Dual CSRS was zero in 2013, 2012, and 2011.

The Postal Service recognizes expense for the legally-required contribution for each period, and records a liability for any contributions due and unpaid at the end of a reporting period.

EXPENSE COMPONENTS

The following table lists the components of total retirement expenses included in "Compensation and Benefits" expense in the Statements of Operations for years 2013, 2012, and 2011.

Retirement Expense (Dollars in millions)	2013	2012	2011
FERS	$ 2,891	$ 2,980	$ 2,983
Social Security	1,860	1,853	1,856
FERS Thrift Savings Plan	987	1,021	1,040
Total Retirement Expense	$ 5,738	$ 5,854	$ 5,879

Because the number of employees participating in FERS has decreased by 10.5% over the past three years, the period-to-period comparability of the contributions for the years 2013, 2012, and 2011 is impacted. This has been somewhat offset by higher required FERS contribution percentages.

The number of employees enrolled in each of the retirement plans at the end of 2013, 2012, and 2011 is as follows:

Retirement Enrollment by Program (Actual numbers)	2013	2012	2011
CSRS	**50,932**	**67,224**	**79,014**
Dual CSRS	**3,232**	**3,942**	**4,551**
FERS	**436,891**	**457,292**	**473,686**
Total Enrollment	**491,055**	**528,458**	**557,251**

Employer cash contributions to retirement plans were $3,865 million in 2013, $3,988 million in 2012, and $3,214 million in 2011. These amounts do not include Social Security contributions. Employer contributions, as a percentage of employee basic pay, for FERS will remain 11.9% in 2014.

Employee contributions for the past three years, as a percentage of employee basic pay, were 7.0% for CSRS and 0.8% for Dual CSRS and FERS. New hires participate in FERS with higher contribution rates than employees with greater tenure due to changes made effective for employees hired on or after January 1, 2013.

In 2011, at a time when OPM had projected that the Postal Service had overfunded its FERS obligation by $11.4 billon, the Postal Service sought to apply the overfunded balance to amounts currently due for employer contributions and ceased making employer FERS contributions in June 2011 through November 2011. The Postal Service resumed the regular biweekly payments for FERS employer's contributions and remitted all previously withheld payments in December 2011, including the $911 million accrued at September 30, 2011.

OPM's most recent calculation estimates the FERS surplus at $0.9 billion at September 30, 2012, the latest actual data available. This reduction in the estimated surplus resulted primarily from changes to government-wide economic and demographic assumptions made by OPM, as well as actual 2011 experience. OPM currently estimates the FERS surplus will decline to approximately $0.5 billion by September 30, 2013. The Postal Service is requesting that OPM calculate FERS liabilities utilizing Postal Service-specific assumptions.

NOTE 9 — HEALTH BENEFIT PLANS

CURRENT EMPLOYEES

Substantially all career employees are covered by the Federal Employees' Health Benefits Program (FEHBP). This plan covers both active and retired employees. Health care benefits are available to all participants who meet certain eligibility requirements. In addition to administering the program, OPM allocates the cost of FEHBP to the various participating government agency employers. The Postal Service cannot direct the costs, benefits, or funding requirements of the plan and, therefore, accounts for program expenses using multiemployer plan accounting rules. Contributions to the plan are recorded as an expense in the period in which the contribution is due. The portion of the premium cost paid by the Postal Service for most active employees is determined through agreements with our unions.

Employees paid approximately 22% of total premium costs in 2013 and 2012, and 21% of the premium costs in 2011. Postal Service employee healthcare expense was $4,951 million in 2013, $5,187 million in 2012, and $5,222 million in 2011, and are included in "Compensation and Benefits" in the Statements of Operations.

RETIREES

Employees who participate in the FEHBP for the five years immediately preceding their retirement may participate in the FEHBP during their retirement. The Postal Service is required to pay the employer's share of health insurance premiums for all retired postal employees and their survivors who participate in the FEHBP and who retire on or after July 1, 1971. The employer's share of premium costs for retirees (and their survivors) is set by law and is not subject to negotiation with our unions, but could fluctuate significantly by the passage of new federal law, or in some circumstances, by OPM under its authority as administrator. The Postal Service cannot direct the costs, benefits, or funding requirements of the plans. Accordingly, the Postal Service's participation in FEHBP is accounted for as participation in a multiemployer benefit plan. Several factors could significantly increase or decrease future health benefits costs, including favorable or unfavorable investment performance of the PSRHBF, changes in demographics, higher healthcare premiums, changes in actuarial assumptions, and increased or decreased benefits to participants. Costs attributable to federal civil service before July 1, 1971 are not paid by the Postal Service. As discussed below, the Postal Service was required to prefund retiree health benefits to be provided beginning in 2007 by depositing funds into the PSRHBF each year through 2016. At this time, it is not possible to determine the amount of additional future contributions that may be required by OPM, if any, or whether any material adverse effect on the Postal Service's financial condition, results of operations, or liquidity would result from participation in these plans.

No other agency that participates in FEHBP prefunds retiree health benefits for their employees.

In 2006, P.L. 109-435 created the PSRHBF, which is held by the U.S. Treasury and controlled by OPM, but funded by the Postal Service. P.L. 109-435 established a ten-year schedule of Postal Service prefunding payments that ranged between $5.4 billion and $5.8 billion per year. However, the 2009 scheduled prefunding payment was decreased from $5.4 billion to $1.4 billion due to the enactment of P.L. 111-68. On September 30, 2011, P.L. 112-33, *Continuing Appropriations Act, 2012,* rescheduled the required PSRHBF payment of $5.5 billion previously scheduled to be due by September 30, 2011, to be due by October 4, 2011. This date was then rescheduled by a number of laws subsequently passed. The most recent law affecting the PSRHBF payment, P.L. 112-74, *Consolidated Appropriations Act, 2012*, rescheduled the due date to August 1, 2012. As a result, the total required PSRHBF payments in 2012 were $11.1 billion: $5.5 billion due by August 1, 2012, and $5.6 billion due by September 30, 2012. To date, no law changes have altered the payment requirements for the 2014 to 2016 scheduled payments.

On August 1, 2012, when the $5.5 billion PSRHBF prefunding payment became due, the Postal Service had insufficient funds to make the payment and was forced to default. On September 30, 2012, when the $5.6 billion prefunding payment became due, the Postal Service again had insufficient funds to make this payment and was forced to default again. Prior to the defaults, the Postal Service notified its stakeholders, including the Administration and Congress, of the imminent default. The Postal Service has also defaulted on the $5.6 billion payment due by September 30, 2013. Although the Postal Service defaulted on its payments, the full $16.7 billion owed is recorded as a current liability in "Retiree Health Benefits" on the September 30, 2013 Balance Sheets. The $5.6 billion that was due by September 30, 2013 was recognized as an expense and included in "Retiree health benefits" on the Statements of Operations.

Current law obligates the Postal Service to make additional payments of $5.7 billion in 2014 and 2015, and $5.8 billion in 2016, each due by September 30 of the respective year. To date, no law changes have addressed these required payments and it remains unlikely that the Postal Service will have sufficient liquidity to make any of these scheduled future payments if it is to fulfill its other statutory obligations, including the obligation to provide universal mail service to the nation (as discussed in Note 2*, Liquidity Matters).* The statutory requirement establishing the payment schedule (P.L. 109-435) contains no provisions addressing a payment default.

Although P.L. 109-435 dictates the annual prefunding requirements through 2016, these amounts and the timing of funding could be changed at any time with enactment of a new law or an amendment of existing law. At September 30, 2013, scheduled prefunding payments to the PSRHBF are:

PSRHBF Commitment (Dollars in millions)	P.L. 109-435 Requirement
2014*	$ 22,400
2015	5,700
2016	5,800
2017**	-
2018**	-
Total PSRHBF Commitment	$ 33,900

* Amount listed for 2014 amount includes the $16.7 billion defaults from 2012 and 2013.
** Effective in 2017, the unfunded liability will be calculated by OPM. The Postal Service is obligated to fund the actuarially determined normal cost and the amortized portion of the unfunded liability. Currently, these amounts cannot be estimated.

These annual prefunding payments are in addition to the regularly allocated cost of premiums for current retirees, which continue to be payable through 2016. The law requires that, not later than 2017, OPM will perform an actuarial valuation to determine if additional payments into the PSRHBF are required. If required, OPM will design an amortization schedule to fully fund any remaining liability by 2056. Under current law, starting in 2017, the Postal Service's share of the health insurance premiums for current and future Postal Service retirees will be paid from the PSRHBF. Beginning in 2017, the Postal Service will also be required to fund the actuarially determined normal cost. The Postal Service did not make any prefunding payments in 2013, 2012, or 2011. At September 30, 2013, the balance in the fund was $47.3 billion. This amount represents 49% of the total accumulated health benefit retirement obligation of $95.6 billion as of September 30, 2013.

The Postal Service has provided 100% of the contributions into the PSRHBF since inception. No other agencies provide funding for retirees into the PSRHBF or into any other fund related to future retiree health benefits to be provided under FEHBP. Because these government-sponsored retirement plans are not subject to the rules and regulations of the *Pension Protection Act of 2006*, no zone status and financial improvement plan status or rehabilitation plan status reports for these plans are available.

Total retiree health benefits expenses were $8,450 million in 2013, $13,729 million in 2012, and $2,441 million in 2011. Components of retiree health benefits expense during the years ended September 30, 2013, 2012, and 2011, respectively, are as follows:

Retiree Health Benefits (Dollars in millions)	Year Ended September 30, 2013	2012	2011
Retiree Health Benefits Premiums	$ 2,850	$ 2,629	$ 2,441
P.L. 109-435 Payment to PSRHBF	5,600	11,100	-
Total Retiree Health Benefits	$ 8,450	$ 13,729	$ 2,441

Because the amounts to be paid into the PSRHBF are set by legislation, retiree health benefits expense may represent more or less than the full cost of the benefits earned by Postal Service employees. These costs are reflected as "Retiree health benefits" in the Statements of Operations.

NOTE 10 — WORKERS' COMPENSATION

Postal employees injured on the job are covered by the Federal Employees' Compensation Act (FECA), administered by the DOL's Office of Workers' Compensation Programs (OWCP), which makes all decisions regarding injured workers' eligibility for benefits. However, the Postal Service annually reimburses the DOL for all workers' compensation benefits paid to or on behalf of postal employees, and pays an administrative fee to DOL.

An estimation model that combines four generally accepted actuarial valuation techniques is used to project future claim payments based upon past claim-payment experience and exposure to claims as measured by total hours worked by our employees.

A liability is recorded for the present value of estimated future payments to postal employees, or their qualified survivors, who have been injured through the end of the reporting period. The estimated total cost of claims, segregated by the date of the injury, based on the pattern of historical payments, frequency (number of claims per hours worked) or severity (average cost per claim) of the claim-related injuries, and the expected trend in future costs. The liability for claims arising more than ten years ago is determined by an independent actuary. The existing FECA benefit structure is often superior to benefits available under normal federal retirement, and these more lucrative payments will, in some cases, be for the rest of the lives of the claimants.

The liability for estimated future workers' compensation payments is recorded at its present value. To record the liability and annual expense, an estimate is made of the amount of funding that would need to be invested at current interest rates in order to fully fund all estimated future payments. Inflation and discount (interest) rates are updated as of the date of the financial statements to determine the present value of the workers' compensation liability at the balance sheet date, in accordance with U.S. GAAP. The impact of changes in the discount and inflation rates is accounted for as a change in accounting estimate and included in operating expenses.

The estimation of the liability is highly sensitive to changes in discount rates. An increase of 1% in the discount rate would decrease the September 30, 2013 liability and 2013 expense by approximately $1.7 billion. A decrease of 1% in the discount rate would increase the September 30, 2013 liability and 2013 expense by approximately $2.1 billion.

At September 30, 2013, the present value of the liability for future workers' compensation payments was $17,240 million, compared to $17,567 million at September 30, 2012, a decrease of $327 million, or 1.9%. The current portion of the liability was $1,322 million at September 30, 2013. At September 30, 2012, the current portion of the liability was $1,337 million.

The inflation and discount rates used to estimate the liability at September 30, 2013, 2012, and 2011 are shown in the following table:

Workers' Compensation Liability	September 30,	
Inflation and Discount Rates	2013	2012
Compensation Claims Liability		
Discount Rate	**3.0%**	**2.1%**
Long-term COLA	**2.9%**	**2.9%**
Medical Claims Liability		
Discount Rate	**3.0%**	**2.2%**
Medical Inflation	**9.1%**	**8.9%**

In Quarter IV, 2012, the Postal Service enhanced the estimation process by refining the variables employed to estimate its workers' compensation liability. As a result of this enhancement, the liability for workers' compensation was increased by $361 million. This change was considered a change in accounting estimate under U.S. GAAP and, accordingly, the impact of the change was reflected in Quarter IV, 2012. No similar adjustment was made in either 2013 or 2011.

Changes in the workers' compensation liability are attributable to the combined impact of changes in the discount and inflation rates, routine changes in actuarial estimation, new compensation and medical cases, and the progression of existing cases. The impact of the changes in discount rates accounted for a decrease of $1,745 million in expense for 2013, and increases of $346 million and $978 million of the 2012 and 2011 expense, respectively.

In 2013, workers' compensation expense was $1,061 million compared to $3,729 million in 2012 and $3,672 million in 2011. The components of workers' compensation expense are as follows:

Workers' Compensation Expense	Years Ended September 30,		
(Dollars in millions)	2013	2012	2011
Impact of discount rate changes	$ (1,745)	$ 346	$ 978
Actuarial revaluation of existing cases	949	1,602	1,264
Subtotal	(796)	1,948	2,242
Costs of new cases	1,789	1,714	1,367
Administrative fee	68	67	63
Total Workers' Compensation Expense	$ 1,061	$ 3,729	$ 3,672

NOTE 11 — FAIR VALUE MEASUREMENT

In accordance with ASC 820, *Fair Value Measurement*, the Postal Service defines fair value based on the price that would be received upon sale of an asset or the price that would be paid to transfer a liability in an orderly transaction between unrelated parties at the balance sheet date. The Company assumes that the carrying value of current assets and current liabilities approximates fair values. The Postal Service has noncurrent financial instruments, such as the long-term portion of debt (see Note 4, *Debt*) and long-term receivables (see Note 12, *Revenue Forgone*), that must be measured for disclosure purposes on a recurring basis under authoritative ASC 820. The Postal Service also applies these requirements to various non-recurring measurements of financial and non-financial assets and liabilities, such as the impairment of property and equipment. Measurement of assets and liabilities at fair value is performed using inputs from a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value. The fair value hierarchy consists of three broad levels, as defined in the authoritative literature and described below:

- Level 1 inputs include unadjusted quoted prices in active markets for identical assets or liabilities as of the balance sheet date.
- Level 2 inputs include observable data, such as quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, observable data, other than quoted market prices for the asset or liability (i.e., interest rates, yield curves, etc.) and inputs that are derived from, or corroborated by, observable market data.
- Level 3 inputs include unobservable data that reflect current assumptions about the judgments and estimates that market participants would use when pricing the asset or liability. These inputs are based on the best information available, including internal data.

Because no active market exists for the debt with the FFB, the fair value of the noncurrent portion of these notes has been estimated using prices provided by the FFB, a level 3 input.

The fair value of revenue forgone has been estimated using the income method and discount rates on similar assets, such as noncurrent U.S. Treasury securities that have a similar maturity, a level 2 input.

The carrying values and the fair values of noncurrent assets and liabilities that qualify as financial instruments in accordance with the accounting literature are in the table below. Considerable judgment is involved in developing these estimates and, accordingly, may not be necessarily indicative of amounts that would be realized upon disposition. The following table is presented for disclosure purposes only. The

Postal Service has not recognized gains as a result of these valuation measurements. All recognized losses have been incorporated into our financial statements, and the unrecognized gains and losses are not considered to have a significant impact upon our operations.

Fair Value of Long-Term Financial Assets and Liabilities	For The Years Ended September 30, 2013		2012	
(Dollars in millions)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Revenue Forgone	$ 385	$ 461	$ 385	$ 533
Total Long-Term Financial Assets	**385**	**461**	**385**	**533**
Debt	5,200	5,517	5,500	6,290
Total Long-Term Financial Liabilities	**$ 5,200**	**$ 5,517**	**$ 5,500**	**$ 6,290**

For the year ended September 30, 2013, there were no significant transfers between Level 1 and Level 2 assets or liabilities.

Non-financial assets, such as property and equipment, are measured at fair value when there is an indicator of impairment or when a decision is made to dispose of an asset, and recorded at fair value only when impairment is recognized. Impairment analyses of property and equipment were performed in each quarter of 2013, 2012, and 2011, and based on those analyses, impairment charges of $26 million, $80 million, and $21 million were recorded in 2013, 2012, and 2011, respectively. Independent appraisals, adjusted for estimated selling costs, are used to determine the fair value of non-financial assets deemed impaired or being held for sale. Independent third party appraisals are deemed level 2 inputs as defined above. See section on impaired assets in Note 3, *Summary of Significant Accounting Policies,* and Note 5, *Property and Equipment.*

NOTE 12 — REVENUE FORGONE

Revenue forgone is an appropriation that compensates the Postal Service for the cost of services that it is required to perform at no cost or reduced cost to certain groups. Congress appropriates funds to reimburse the Postal Service for the revenue that has been forgone in providing these services.

The lost revenue associated with the services that will be provided during a given year is estimated and forwarded to Congress with a funding request. At the end of the year, the actual value of services provided is reconciled with this funding request. If the actual services provided differs from that underlying the initial funding request, the Postal Service will request additional funding or return any excess funding through a reduction to the next revenue forgone funding request.

The Revenue Forgone Reform Act of 1993 authorized Congress to make 42 annual payments of $29 million each, beginning in 1994 and continuing through 2035, to reimburse the Postal Service for certain services performed or revenue forgone from 1991 through 1998. The payments authorized by the *Revenue Forgone Reform Act of 1993* totaled $1,218 million, which had a present value calculated at a 7% discount rate of approximately $390 million. The $390 million was recognized as revenue during fiscal years 1991 through 1998. The discounted present value of the remaining future payment for the years ended September 30, was $397 million in 2013, and $374 million in 2012.

Below is a chart table summarizing the various appropriations laws and the amounts received by the Postal Service.

Appropriations Received Under the Revenue Forgone Act of 1993		
(Dollars in millions)	**Applicable Appropriations Law**	**Appropriated & Received**
1994-2010	**Various**	**$ 492**
2011	***Department of Defense and Full Year Continuing Appropriations Act***	**12**
2012	***P.L. 112-74 Consolidated Appropriations Act of 2012***	**-**
2013	***H.J. Res. 117, The Continuing Appropriations Resolution, 2013 and H.R. 933 (P.L. 113-6), the Consolidated and Further Continuing Appropriations Act of 2013***	**-**
Total		**$ 504**

There was no impact to the 2012 or 2011 Statements of Operations for the adjustment in appropriation because the revenue was previously recognized upon the enactment of the *Revenue Forgone Reform Act of 1993* and the impact of P.L. 112-10 and P.L. 112-74 only represents a change in the timing of the funding, but not a change to the requirement for reimbursement. The unfunded amounts will be included as part of the 2014 and 2015 appropriations requests. Current proposed legislation does not contain a provision for funds to be paid to the Postal Service regarding these amounts due under the *Revenue Forgone Reform Act of 1993*. However, there has been no final legislation enacted nor is there an expectation that legislation will be enacted regarding the 2014 appropriation requests, which will result in no appropriations for 2014.

During 2013, the Postal Service recognized $64 million in revenue, including $23 million of imputed interest, from the appropriations, compared to $69 million, including $23 million of imputed interest in 2012. In 2011, $119 million was recognized in revenue, which included $24 million of imputed interest. The revenue forgone receivable is included in the Balance Sheets as “Receivables: U.S. Government.” The total receivable for revenue forgone was $453 million in 2013, of which $68 million was classified as current assets. In 2012, the total receivable was $463 million and the current portion was $78 million.

NOTE 13 — SELECTED QUARTERLY FINANCIAL DATA

2013 (Dollars in millions, unaudited)	Quarter 1	Quarter 2	Quarter 3	Quarter 4
Operating revenue	$ 17,660	$ 16,348	$ 16,177	$ 17,133
Total operating expenses	18,880	18,173	16,876	18,199
Loss from operations	(1,220)	(1,825)	(699)	(1,066)
Interest expense - net	(44)	(41)	(41)	(41)
Net Loss	$ (1,264)	$ (1,866)	$ (740)	$ (1,107)

2012 (Dollars in millions, unaudited)	Quarter 1	Quarter 2	Quarter 3	Quarter 4
Operating revenue	$ 17,677	$ 16,227	$ 15,613	$ 15,706
Total operating expenses[a]	20,923	19,364	20,755	19,922
Loss from operations	(3,246)	(3,137)	(5,142)	(4,216)
Interest expense - net	(41)	(40)	(43)	(41)
Net Loss	$ (3,287)	$ (3,177)	$ (5,185)	$ (4,257)

2011 (Dollars in millions, unaudited)	Quarter 1	Quarter 2	Quarter 3	Quarter 4
Operating revenue	$ 17,877	$ 16,234	$ 15,766	$ 15,834
Total operating expenses	18,167	18,426	18,831	15,210 [b]
(Loss) Income from operations	(290)	(2,192)	(3,065)	624
Interest expense - net	(39)	(36)	(35)	(34)
Net (Loss) Income	$ (329)	$ (2,228)	$ (3,100)	$ 590

a - Includes the impact of the $5.5 billion increase in PSRHBF contribution due to P.L. 112-33 which changed the due date of the scheduled payment of $5.5 billion originally due by September 30, 2011 to be due by August 1, 2012. In addition, it also includes the regularly scheduled $5.6 billion contribution to the PSRHBF required by P.L. 109-435.

b - Includes the impact of the $5.5 billion reduction in the PSRHBF contribution due to P.L. 112-33.

Operating Statistics

Revenue, Pieces and Weight Statistics	2013	2012	2011	2010	2009
(In millions of units indicated, unaudited)					
First-Class Mail					
Revenue	$ 28,152	$ 28,856	$ 30,030	$ 32,111	$ 33,848
Number of Pieces	65,834	68,674	72,522	77,592	82,727
Weight, Pounds	3,197	3,295	3,459	3,451	3,437
Standard Mail					
Revenue	$ 16,915	$ 16,428	$ 17,175	$ 16,728	$ 16,707
Number of Pieces	80,890	79,496	83,957	81,841	81,763
Weight, Pounds	8,308	8,300	8,770	9,043	8,970
Shipping & Packages Services					
Revenue	$ 12,515	$ 11,592	$ 10,670	$ 10,156	$ 10,193
Number of Pieces	3,711	3,501	3,258	3,057	3,077
Weight, Pounds	5,912	5,729	5,462	5,006	4,961
International Mail					
Revenue	$ 3,015	$ 2,816	$ 2,585	$ 2,388	$ 2,310
Number of Pieces	902	926	987	594	759
Weight, Pounds	455	463	445	243	241
Periodicals					
Revenue	$ 1,658	$ 1,731	$ 1,821	$ 1,879	$ 2,038
Number of Pieces	6,359	6,741	7,077	7,269	7,901
Weight, Pounds	2,422	2,535	2,725	2,778	3,018
U.S. Postal Service					
Number of Pieces	633	440	434	438	455
Weight, Pounds	151	145	150	134	128
Free Matter for the Blind					
Number of Pieces	55	57	62	68	62
Weight, Pounds	23	26	30	32	30
Other Services					
Revenue*	$ 3,747	$ 3,800	$ 3,430	$ 3,790	$ 2,994
Deferred Revenue - Prepaid Postage**	1,316				
Postal Service Totals					
Revenue	**$ 67,318**	**$ 65,223**	**$ 65,711**	**$ 67,052**	**$ 68,090**
Number of Pieces	**158,384**	**159,835**	**168,297**	**170,859**	**176,744**
Weight, Pounds	**20,468**	**20,493**	**21,041**	**20,687**	**20,785**

Note: The charts have been reformatted to reflect the new presentation which is more representative of how the Postal Service manages the business. The following summarizes the major reclassification changes:

-The new First-Class Package Services now includes the First-Class Parcels category formally included in First-Class Mail.

-Parcel Select, Parcel Return, & Standard Parcels now include Standard Mail Parcels category formally included in Standard Mail.

-The International category now includes all international revenues, pieces, and weight formally included in First-Class Mail, Standard Mail, Package Services, and Other.

** Includes a $246 million increase, $59 million decrease and increases of $298 million, $103 million, $655 million to the deferred revenue-prepaid postage liability in 2013, 2012, 2011, 2010, and 2009, respectively. As this is a change in estimate, the decrease or increase in revenue is accounted for in Other Mailing Services revenue.*

*** Represents a non-recurring adjustment made to reflect information, previously unavailable, which detailed consumer behavior and usage patterns related to Forever Stamps.*

Operating Statistics

Shipping & Packages Services Statistics	2013	2012	2011	2010	2009
(In millions of units indicated, unaudited)					
Priority Mail Express					
Revenue	$ 794	$ 802	$ 800	$ 829	$ 884
Number of Pieces	39	40	40	43	47
Weight, Pounds	38	41	39	40	45
First-Class Packages					
Revenue	$ 1,775	$ 1,523	$ 1,284	$ 1,170	$ 1,117
Number of Pieces	794	704	638	599	583
Weight, Pounds	263	230	209	195	190
Priority Mail					
Revenue	$ 6,732	$ 5,937	$ 5,636	$ 5,455	$ 5,368
Number of Pieces	899	824	790	779	791
Weight, Pounds	1,985	1,693	1,693	1,670	1,636
Parcel Select Mail					
Revenue	$ 1,975	$ 1,626	$ 1,277	$ 1,106	$ 1,104
Number of Pieces	1,359	1,241	1,077	951	908
Weight, Pounds	2,070	1,869	1,619	1,287	1,178
Parcel Return Service Mail					
Revenue	$ 124	$ 115	$ 92	$ 65	$ 49
Number of Pieces	51	47	38	28	18
Weight, Pounds	153	140	118	72	39
Package Services					
Revenue	$ 1,115	$ 1,589	$ 1,581	$ 1,531	$ 1,671
Number of Pieces	569	645	675	657	730
Weight, Pounds	1,403	1,756	1,784	1,742	1,873
Total Shipping & Package Services					
Revenue	$ 12,515	$ 11,592	$ 10,670	$ 10,156	$ 10,193
Number of Pieces	3,711	3,501	3,258	3,057	3,077
Weight, Pounds	5,912	5,729	5,462	5,006	4,961
Ancillary & Special Services					
Certified Mail					
Revenue	$ 717	$ 663	$ 708	$ 791	$ 731
Number of Articles	235	227	251	283	267
Return Receipts					
Revenue	$ 357	$ 399	$ 478	$ 557	$ 544
Number of Articles	158	170	195	223	221
USPS Tracking					
Revenue	$ 106	$ 244	$ 244	$ 224	$ 166
Number of Articles	1,861	1,819	1,482	1,371	1,063
P.O. Box Rent Revenue	$ 889	$ 836	$ 808	$ 816	$ 817
Money Orders					
Revenue	$ 155	$ 165	$ 172	$ 182	$ 190
Number of Articles	103	109	116	123	135
Insurance					
Revenue	$ 108	$ 109	$ 117	$ 128	$ 129
Number of Articles	28	30	35	40	44
Shipping and Mailing Supplies					
Revenue	$ 123	$ 118	$ 112	$ 107	$ N/A
Number of Articles	63	70	62	62	N/A
Other Services Revenue	$ 1,292	$ 1,266	$ 791	$ 985	$ 417
Total Other Services Revenue	$ ***3,747***	$ ***3,800***	$ ***3,430***	$ ***3,790***	$ ***2,994***

Note: The charts have been reformatted to reflect the new presentation which is more representative of how the Postal Service manages the business. The following summarizes the major reclassification changes:

-The new First-Class Package Services now includes the First-Class Parcels category formally included in First-Class Mail.
-Parcel Select, Parcel Return, & Standard Parcels now include Standard Mail Parcels category formally included in Standard Mail.
-The International category now includes all international revenues, pieces, and weight formally included in First-Class Mail, Standard Mail, Package Services, and Other.

Operating Statistics

Career Employees	2013	2012	2011	2010	2009
(Actual numbers, unaudited)					
Headquarters and HQ Related Employees					
Headquarters	2,967	2,922	2,745	2,937	2,811
Headquarters - Field Support Units	3,870	4,189	4,213	4,876	4,455
Inspection Service - Field	2,411	2,403	2,398	2,435	2,617
Inspector General	1,135	1,124	1,123	1,108	1,155
Total HQ and HQ Related Employees	10,383	10,638	10,479	11,356	11,038
Field Employees					
Area Offices	807	805	809	1,079	1,047
Postmasters / Installation Heads	17,804	17,376	22,212	23,111	23,672
Supervisors / Managers	22,940	23,566	25,083	27,792	28,812
Professional Administration and Technical Personnel	4,375	4,501	4,571	5,926	6,460
Clerks/Nurses	118,751	139,666	149,562	157,168	177,842
Mail Handlers	40,102	42,033	46,596	48,650	52,954
City Delivery Carriers	167,388	176,808	183,774	192,180	200,658
Motor Vehicle Operators	6,598	6,885	7,064	7,413	8,113
Rural Delivery Carriers - Full-Time	66,099	66,549	66,186	66,845	67,749
Building and Equipment Maintenance Personnel	30,737	34,705	36,032	37,403	39,531
Vehicle Maintenance Employees	5,033	4,926	4,883	4,985	5,252
Total Field Employees	480,634	517,820	546,772	572,552	612,090
Total Career Employees	491,017	528,458	557,251	583,908	623,128
Noncareer Employees					
Casuals	1,779	5,651	2,606	6,503	4,271
Postal Support Employees	28,793	20,281	10,471	-	-
Nonbargaining Temporary	249	3,537	2,259	1,910	1,659
Rural Part-Time: Subs / RCA / RCR / AUX	46,607	48,170	50,349	51,801	54,529
Postmaster Relief and Leave Replacements	13,454	8,727	9,138	11,350	11,477
City Carrier Assistant (CCA)	30,433	-	-	-	-
Mail Handler Assistant (MHA)	5,382	-	-	-	-
Transitional Employees	-	14,204	13,876	16,215	17,018
Total Noncareer Employees	126,697	100,570	88,699	87,779	88,954
Total Employees	617,714	629,028	645,950	671,687	712,082

Note: The Postal Support Employees category was created in 2011.

Note: The City Carrier Assistant category was created in 2013.

Note: The Mail Handler Assistant category was created in 2013.

Operating Statistics

Post Office and Delivery Points	2013	2012	2011	2010	2009
(In actual units indicated, unaudited)					
Post Offices, Stations, and Branches					
Postal-managed					
Post Offices	26,670	26,755	26,927	27,077	27,161
Classified Stations, Branches, and Carrier Annexes	5,032	5,102	5,219	5,451	5,501
Total Postal-Managed	**31,702**	**31,857**	**32,146**	**32,528**	**32,662**
Contract Postal Units	2,718	2,839	2,904	2,931	3,037
Village Post Offices	385	47	-	-	-
Community Post Offices	629	673	706	763	797
Total Offices, Stations, and Branches	**35,434**	**35,416**	**35,756**	**36,222**	**36,496**
Residential Delivery Points					
City Delivery	81,297,883	81,040,591	80,792,112	80,531,231	80,187,505
Rural	40,111,620	39,449,400	39,067,740	38,638,280	38,264,946
PO Box	2,736,005	15,994,508	15,891,349	15,739,698	15,601,883
Highway Contract	15,882,717	2,678,508	2,639,061	2,607,138	2,576,166
Total Residential Delivery	**140,028,225**	**139,163,007**	**138,390,262**	**137,516,347**	**136,630,500**
Business Delivery Points					
City Delivery	7,554,231	7,525,979	7,487,332	7,457,500	7,483,461
Rural	1,524,741	1,493,644	1,468,861	1,453,292	1,439,266
PO Box	3,738,314	3,889,964	4,072,664	4,355,674	4,489,688
Highway Contract	74,922	73,957	72,872	72,648	72,966
Total Business Delivery	**12,892,208**	**12,983,544**	**13,101,729**	**13,339,114**	**13,485,381**
Total Delivery Points	**152,920,433**	**152,146,551**	**151,491,991**	**150,855,461**	**150,115,881**
Change in Delivery Points	773,882	654,560	636,530	739,580	923,595

Financial History Summary

(Dollars in millions)	2013	2012	2011	2010	2009
Operating Results					
Operating Revenue	$ 67,318	$ 65,223	$ 65,711	$ 67,052	$ 68,090
Operating Expenses					
Compensation and benefits	46,708	47,689	48,310	48,909	50,883
Retiree health benefits*	8,450	13,729	2,441	7,747	3,390
All other operating expenses	16,970	19,546	19,883	18,770	17,557
Total Operating Expenses *	**$ 72,128**	**80,964**	**$ 70,634**	**$ 75,426**	**$ 71,830**
Operating Loss	**$ (4,810)**	**$ (15,741)**	**$ (4,923)**	**$ (8,374)**	**$ (3,740)**
Net Loss	**$ (4,977)**	**$ (15,906)**	**$ (5,067)**	**$ (8,505)**	**$ (3,794)**
P.L.109-435 PSRHBF Expenses*	**$ 5,600**	**$ 11,100**	**$ -**	**$ 5,500**	**$ 1,400**
Workers' compensation expenses	**$ 1,061**	**$ 3,729**	**$ 3,672**	**$ 3,566**	**$ 2,223**
Financial Position					
Cash and cash equivalents	$ 2,326	$ 2,086	$ 1,283	$ 1,161	$ 4,089
Property and equipment, net	17,512	18,863	20,337	21,595	22,680
All other assets	1,491	1,662	1,793	1,570	1,349
Total Assets	**$ 21,329**	**$ 22,611**	**$ 23,413**	**$ 24,326**	**$ 28,118**
Accrued Contributions to PSRHBF	$ 16,700	$ 11,100	$ -	$ -	$ -
Workers' compensation liability	17,240	17,567	15,142	12,589	10,133
Debt	15,000	15,000	13,000	12,000	10,200
All other liabilities	12,524	$ 13,790	14,211	13,610	13,198
Total Liabilities	**$ 61,464**	**$ 57,457**	**$ 42,353**	**$ 38,199**	**$ 33,531**
Net Capital					
Capital contributions of the U.S. government	$ 3,132	$ 3,132	$ 3,132	$ 3,132	$ 3,087
Deficit since 1971 reorganization	(42,955)	(37,978)	(22,072)	(17,005)	(8,500)
Total Net Deficiency	**$ (39,823)**	**$ (34,846)**	**$ (18,940)**	**$ (13,873)**	**$ (5,413)**

* Due to the passage of P.L. 112-33 which changed the due date of the scheduled PSRHBF prefunding payment of $5.5 billion originally due by September 30, 2011 into 2012, PSRHBF expenses were zero in 2011. As a result, total PSRHBF expenses in 2012, including the previously scheduled prefunding payment of $5.6 billion due by September 30, 2012, were $11.1 billion. In 2009, P.L. 111-68 changed the PSRHBF payment from $5.4 billion to $1.4 billion.

Trademarks

The following are among the many trademarks owned by the United States Postal Service:

United States Postal Service®, U.S. Postal Service®, USPS®, First-Class Mail®, usps.com®, Click-N-Ship®, Automated Postal Center®, APC®, Self-Service Ship and Mail Center® and Design, Express Mail®, Priority Mail®, Priority Mail Express™, Standard Mail®, Parcel Post®, Standard Post™, Media Mail®, Customized MarketMail®, Intelligent Mail®, Parcel Select®, Priority Mail Express International™, Quick, Easy, Convenient®, United States Postal Service Office of Inspector General® and Design, United States Postal Inspection Service®, Post Office™, Postal Service™, Signature Confirmation™, Certified Mail®, Delivery Confirmation™, USPS Delivery Confirmation®, Registered Mail™, ZIP Code™, Carrier Pickup™, Priority Mail International®, First-Class Mail International®, Premium Forwarding Service®, Forever® Stamp, Approved by the Postmaster General®, DineroSeguro®, gopost®, MetroPost®, Every Door Direct Mail®, EDDM®, Commercial Plus®, Commercial Base®, Critical Mail®, ePacket®, EPM®, Global Express Guaranteed®, International Priority Airmail®, International Surface Air Lift®, Mover's Guide®, OneCode ACS®, PCC®, Priority Mail Flat Rate®, Premium Forwarding Service®, Priority Mail Regional Rate®, ReadyPost®, Stamps to Go®, The Postal Service®. The Postal Store®, U.S. Mail®, USPS Package Intercept®, VPO®, ZIP+4®, Approved Postal Provider™, Every Door Sampling™, Our Priority Is You™, Pay, Print & Ship™, USPS Digital Services™, USPS Change of Address™, USPS Blue Earth™, USPS Tracking™ .

The Sonic Eagle Logo and the trade dress of the Round Top Collection Box design, the Letter Carrier Uniform design, USPS packaging and the LLV Mail Truck design are also among the many trademarks belonging to the United States Postal Service®.

Signatures

Pursuant to the requirements of the Postal Accountability and Enhancement Act of 2006, the United States Postal Service has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

United States Postal Service

/s/ Patrick R. Donahoe

Patrick R. Donahoe
Postmaster General and Chief Executive Officer

Date: November 15, 2013

Pursuant to the requirements of the Postal Accountability and Enhancement Act of 2006, this Report has been signed below by the following persons on behalf of the Postal Service and in the capacities indicated as of November 15, 2013.

Signature	Title
/s/ Mickey D. Barnett Mickey D. Barnett	Chairman, Board of Governors
/s/ James H. Bilbray James H. Bilbray	Vice Chairman, Board of Governors
/s/ Louis J. Giuliano Louis J. Giuliano	Governor
/s/ Dennis J. Toner Dennis J. Toner	Governor
/s/ Ellen C. Williams Ellen C. Williams	Governor

Signature	Title
/s/ Patrick R. Donahoe Patrick R. Donahoe	Board Member, Postmaster General and Chief Executive Officer
/s/ Ronald A. Stroman Ronald A. Stroman	Board Member and Deputy Postmaster General
/s/ Joseph Corbett Joseph Corbett	Chief Financial Officer and Executive Vice President, (Principal Financial Officer)
/s/ Timothy F. O’Reilly Timothy F. O’Reilly	Controller, Vice President, (Principal Accounting Officer)

Exhibit 31.1

CERTIFICATION PURSUANT TO RULES 13A-14(A) AND 15D-14(A) UNDER THE SECURITIES AND EXCHANGE ACT OF 1934, AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Patrick R. Donahoe, certify that:

1. I have reviewed this annual report on Form 10-K of the United States Postal Service (Postal Service);

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Postal Service as of, and for, the periods presented in this report;

4. The Postal Service's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e) and internal control over financial reporting (as defined in Exchange Act Rules 13a–15(f) and 15d–15(f)) for the Postal Service and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Postal Service, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the Postal Service's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the Postal Service's internal control over financial reporting that occurred during the Postal Service's most recent fiscal quarter (the Postal Service's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Postal Service's internal control over financial reporting; and

5. The Postal Service's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Postal Service's auditors and the audit committee of the Postal Service's Board of Governors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Postal Service's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the Postal Service's internal control over financial reporting.

Date: November 15, 2013

/s/ Patrick R. Donahoe
Patrick R. Donahoe
Postmaster General and Chief Executive Officer

Exhibit 31.2

CERTIFICATION PURSUANT TO RULES 13A-14(A) AND 15D-14(A) UNDER THE SECURITIES AND EXCHANGE ACT OF 1934, AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Joseph Corbett, certify that:

1. I have reviewed this annual report on Form 10-K of the United States Postal Service (Postal Service);

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Postal Service as of, and for, the periods presented in this report;

4. The Postal Service's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e) and internal control over financial reporting (as defined in Exchange Act Rules 13a–15(f) and 15d–15(f)) for the Postal Service and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Postal Service, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the Postal Service's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the Postal Service's internal control over financial reporting that occurred during the Postal Service's most recent fiscal quarter (the Postal Service's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Postal Service's internal control over financial reporting; and

5. The Postal Service's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Postal Service's auditors and the audit committee of the Postal Service's Board of Governors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Postal Service's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the Postal Service's internal control over financial reporting.

Date: November 15, 2013

/s/ Joseph Corbett
Joseph Corbett
Chief Financial Officer and Executive Vice President

Exhibit 32.1

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of the United States Postal Service (Postal Service) on Form 10-K for the period ended September 30, 2013, (the Report), I, Patrick R. Donahoe, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Postal Service.

Dated: November 15, 2013

/s/ Patrick R. Donahoe
Patrick R. Donahoe
Postmaster General and Chief Executive Officer

Exhibit 32.2

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of the United States Postal Service (Postal Service) on Form 10-K for the period ended September 30, 2013 (the “Report”), I, Joseph Corbett, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Postal Service.

Dated: November 15, 2013

/s/ Joseph Corbett
Joseph Corbett
Chief Financial Officer and Executive Vice President